

Edgar Filing: BLACKROCK MUNIASSETS FUND, INC. - Form N-Q

BLACKROCK MUNIASSETS FUND, INC.

Form N-Q

March 31, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-07642

Name of Fund: BlackRock MuniAssets Fund, Inc. (MUA)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

Name and address of agent for service: Anne F. Ackerley, Chief Executive Officer, BlackRock MuniAssets Fund, Inc., 55 East 52nd Street, New York, NY 10055.

Registrant's telephone number, including area code: (800) 882-0052, Option 4

Date of fiscal year end: 04/30/2010

Date of reporting period: 01/31/2010

Item 1 – Schedule of Investments

Schedule of Investments January 31, 2010 (Unaudited)

BlackRock MuniAssets Fund, Inc. (MUA)
(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
Alabama 0.4%		
County of Jefferson Alabama, RB, Series A, 5.25%, 1/01/17	\$ 530	\$ 476,989
Tuscaloosa Special Care Facilities Financing Authority, RB, Capstone Village, Series A, 5.88%, 8/01/36 (a)(b)	1,820	561,361
		1,038,350
Alaska 0.2%		
Alaska Industrial Development & Export Authority, RB, Williams Lynxs, Alaska Cargoport, AMT, 7.80%, 5/01/14	590	578,188
Arizona 6.7%		
Coconino County Pollution Control Corp., Arizona, Refunding RB, Tucson Electric Power-Navajo, Series A, AMT, 7.13%, 10/01/32	3,000	3,001,140
Maricopa County IDA Arizona, RB, Arizona Charter Schools Project, Series A, 6.63%, 7/01/20	1,625	1,245,140
Maricopa County IDA Arizona, RB, Sun King Apartments Project, Series A, 6.75%, 5/01/31	1,615	1,251,254
Phoenix IDA Arizona, Refunding RB, America West Airlines Inc. Project, AMT, 6.30%, 4/01/23	4,800	3,204,528
Pima County IDA, RB, Arizona Charter Schools Project, Series E, 7.25%, 7/01/31	1,375	1,330,711
Pima County IDA, Refunding IDRB, Tucson Electric Power, 5.75%, 9/01/29	670	676,868
Pima County IDA, Refunding RB, Arizona Charter Schools Project, Series O, 5.25%, 7/01/31	500	378,355
Pima County IDA, Refunding RB, Charter Schools II, Series A, 6.75%, 7/01/31	670	615,120
Salt Verde Financial Corp., RB, Senior, 5.00%, 12/01/32	2,840	2,495,536
Salt Verde Financial Corp., RB, Senior, 5.00%, 12/01/37	1,850	1,574,498

Municipal Bonds	Par (000)	Value
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Arizona (concluded)

Show Low Improvement District, Special Assessment Bonds, District No. 5, 6.38%, 1/01/15	\$	745	\$	746,117
University Medical Center Corp. Arizona, RB, 6.25%, 7/01/29		280		296,957
University Medical Center Corp. Arizona, RB, 6.50%, 7/01/39		500		528,820
				<hr/>
				17,345,044

California 2.7%

California Health Facilities Financing Authority, RB, Cedars-Sinai Medical Center, 5.00%, 8/15/39		1,115		1,029,435
California Statewide Communities Development Authority, Refunding RB, Senior Living, Southern California, 7.00%, 11/15/29		600		632,520
California Statewide Communities Development Authority, Refunding RB, Senior Living, Southern California, 7.25%, 11/15/41		2,060		2,184,156
City of Fontana California, Special Tax Bonds, Refunding, Community Facilities District No. 22-Sierra, Series H, 6.00%, 9/01/34		1,320		1,222,703
State of California, GO, 4.50%, 10/01/36		2,555		2,048,037
				<hr/>
				7,116,851

Colorado 3.5%

City & County of Denver Colorado, RB, Series D, AMT (AMBAC), 7.75%, 11/15/13		1,310		1,455,973
Colorado Health Facilities Authority, Refunding RB, Christian Living Communities Project, Series A, 5.75%, 1/01/26		650		579,560
Elk Valley Public Improvement Corp., RB, Public Improvement Fee, Series A, 7.10%, 9/01/14		1,395		1,425,090
Elk Valley Public Improvement Corp., RB, Public Improvement Fee, Series A, 7.30%, 9/01/22		2,095		2,028,316

Portfolio Abbreviations

To simplify the listings of portfolio holdings in the Schedule of Investments, the names and descriptions of many of the securities have been abbreviated according to the following list.

ACA	American Capital Access Corp.
AGC	Assured Guaranty Corp.
AGM	Assured Guaranty Municipal Corp.
AMBAC	American Municipal Bond Assurance Corp.

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AMT	Alternative Minimum Tax (subject to)
CAB	Capital Appreciation Bonds
EDA	Economic Development Authority
EDC	Economic Development Corp.
ERB	Education Revenue Bonds
GO	General Obligation Bonds
HDA	Housing Development Authority
IDA	Industrial Development Authority
IDRB	Industrial Development Revenue Bonds
NPFGC	National Public Finance Guaranty Corp.
MRB	Mortgage Revenue Bonds
RB	Revenue Bonds
TE	Tax-Exempt

BLACKROCK MUNIASSETS FUND, INC.

JANUARY 31, 2010

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Schedule of Investments (continued)

BlackRock MuniAssets Fund, Inc. (MUA)
(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
Colorado (concluded)		
Elk Valley Public Improvement Corp., RB, Public Improvement Fee, Series B, 7.45%, 9/01/31	\$ 200	\$ 184,402
Plaza Metropolitan District No. 1 Colorado, Tax Allocation Bonds, Public Improvement Fee, Tax Increment, 8.00%, 12/01/25	2,850	2,809,359
Plaza Metropolitan District No. 1 Colorado, Tax Allocation Bonds, Subordinate Public Improvement Fee, Tax Increment, 8.13%, 12/01/25	525	492,382
		<u>8,975,082</u>
Connecticut 2.9%		
Connecticut State Development Authority, RB, AFCO Cargo BDL LLC Project, AMT, 8.00%, 4/01/30	3,490	3,188,220
Harbor Point Infrastructure Improvement District, Tax Allocation Bonds, Harbor Point Project, Series A, 7.88%, 4/01/39 (c)	2,340	2,340,889
Mohegan Tribe of Indians of Connecticut, RB, Public Improvement, Priority Distribution, 6.25%, 1/01/31	2,610	2,090,584
		<u>7,619,693</u>
District of Columbia 2.2%		
District of Columbia, RB, Methodist Home District of Columbia, Series A, 7.38%, 1/01/30	985	985,394
District of Columbia, RB, Methodist Home District of Columbia, Series A, 7.50%, 1/01/39	1,615	1,603,534
District of Columbia Tobacco Settlement Financing Corp., Refunding RB, Asset- Backed, 6.50%, 5/15/33	1,055	1,042,403
Metropolitan Washington Airports Authority, RB, CAB, Second Senior Lien, Series B (AGC), 6.53%, 10/01/30 (d)	7,000	2,045,820
		<u>5,677,151</u>

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Florida 9.5%

Capital Region Community Development District, Florida, Special Assessment Bonds, Capital Improvement, Series A, 7.00%, 5/01/39	945	906,387
County of Miami-Dade, Florida, Refunding RB, Miami International Airport, Series A-1, 5.38%, 10/01/41	705	698,056
Greater Orlando Aviation Authority Florida, RB, Special Purpose, JetBlue Airways Corp., AMT, 6.38%, 11/15/26	1,180	1,057,339
Harbor Bay Community Development District Florida, Special Assessment Bonds, Series A, 7.00%, 5/01/33	455	458,408

Municipal Bonds	Par (000)	Value
Florida (concluded)		
Hillsborough County IDA, RB, National Gypsum Co., Series A, AMT, 7.13%, 4/01/30	\$ 2,000	\$ 1,540,060
Hillsborough County IDA, RB, National Gypsum Co., Series B, AMT, 7.13%, 4/01/30	1,540	1,185,846
Hillsborough County IDA, RB, Tampa General Hospital Project, 5.00%, 10/01/36	4,170	3,793,157
Jacksonville Economic Development Commission, RB, Gerdau Ameristeel US Inc., AMT, 5.30%, 5/01/37	1,300	937,196
Jacksonville Economic Development Commission, Refunding RB, Florida Proton Therapy Institute, Series A, 6.00%, 9/01/17	850	868,105
Lee County IDA Florida, RB, Series A, Lee Charter Foundation, 5.38%, 6/15/37	2,620	1,928,635
Main Street Community Development District, Special Assessment Bonds, Series B, 6.90%, 5/01/17	500	440,830
Midtown Miami Community Development District, Special Assessment Bonds, Series A, 6.25%, 5/01/37	3,255	2,763,495
Santa Rosa Bay Bridge Authority, RB, 6.25%, 7/01/28	3,040	1,702,491
Sarasota County Health Facilities Authority, Refunding RB, Village On The Isle Project, 5.50%, 1/01/27	860	763,586
Sarasota County Health Facilities Authority, Refunding RB, Village On The Isle Project, 5.50%, 1/01/32	795	680,464
Sarasota County Public Hospital District, RB, Sarasota Memorial Hospital Project, Series A, 5.63%, 7/01/39	1,025	1,041,810
Sumter Landing Community Development District Florida, RB, Sub-Series B, 5.70%, 10/01/38	2,380	1,793,068

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Tolomato Community Development District, Special Assessment Bonds, Special Assessment, 6.65%, 5/01/40	2,680	2,143,250
		<hr/> 24,702,183

Georgia 3.0%

City of Atlanta Georgia, Tax Allocation Bonds, Princeton Lakes Project, 5.50%, 1/01/31	640	554,208
Clayton County Development Authority, RB, Delta Air Lines Inc. Project, Series A, 8.75%, 6/01/29	1,990	2,045,819
County of Clayton Georgia, Tax Allocation Bonds, Ellenwood Project, 7.50%, 7/01/33	2,375	2,228,581
Gainesville & Hall County Development Authority, Refunding RB, Acts Retirement Life Community, Series A-2, 6.38%, 11/15/29	700	728,616

Schedule of Investments (continued)

BlackRock MuniAssets Fund, Inc. (MUA)
(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
Georgia (concluded)		
Gainesville & Hall County Development Authority, Refunding RB, Acts Retirement Life Community, Series A-2, 6.63%, 11/15/39	\$ 235	\$ 242,920
Rockdale County Development Authority, RB, Visy Paper Project, Series A, AMT, 6.13%, 1/01/34	2,435	1,962,415
		7,762,559
Guam 3.3%		
Guam Government Waterworks Authority, Refunding RB, Water, 6.00%, 7/01/25	750	750,982
Guam Government Waterworks Authority, Refunding RB, Water, 5.88%, 7/01/35	2,305	2,235,988
Territory of Guam, GO, Series A, 6.00%, 11/15/19	365	370,687
Territory of Guam, GO, Series A, 6.75%, 11/15/29	635	657,638
Territory of Guam, GO, Series A, 7.00%, 11/15/39	660	677,299
Territory of Guam, RB, Section 30, Series A, 5.63%, 12/01/29	1,460	1,471,402
Territory of Guam, RB, Section 30, Series A, 5.75%, 12/01/34	2,250	2,275,065
		8,439,061
Illinois 4.0%		
City of Chicago Illinois, Refunding RB, American Airlines Inc. Project, 5.50%, 12/01/30	4,140	2,815,531
Illinois Finance Authority, RB, Clare at Water Tower Project, Series A, 6.13%, 5/15/38	2,950	1,181,564
Illinois Finance Authority, RB, Monarch Landing Inc. Facility, Series A, 7.00%, 12/01/37 (a)(b)	820	262,400
Illinois Finance Authority, RB, Roosevelt University Project, 6.50%, 4/01/44	2,470	2,537,480
Illinois Finance Authority, RB, Rush University Medical Center Obligation Group, Series B, 7.25%, 11/01/30	1,170	1,298,606
	685	607,157

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Illinois Finance Authority, Refunding RB,
Primary Health Care Centers Program,
6.60%, 7/01/24

Village of Lincolnshire Illinois, Special Tax Bonds, Sedgebrook Project, 6.25%, 3/01/34	1,070	843,802
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Village of Wheeling Illinois, Tax Allocation Bonds, North Milwaukee/Lake-Cook TIF Project, 6.00%, 1/01/25	825	733,227
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10,279,767

Indiana 1.6%

Indiana Finance Authority, Refunding RB, Duke Energy Indiana, Inc., Series C, 4.95%, 10/01/40	2,025	1,963,966
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Municipal Bonds	Par (000)	Value
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Indiana

(concluded)

Vanderburgh County Redevelopment Commission Indiana, Tax Allocation Bonds, 5.25%, 2/01/31	\$ 1,200	\$ 1,147,080
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Vigo County Hospital Authority Indiana, RB, Union Hospital Inc., 5.70%, 9/01/37 (e)	615	508,193
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Vigo County Hospital Authority Indiana, RB, Union Hospital Inc., 5.75%, 9/01/42 (e)	765	627,063
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4,246,302

Louisiana

1.2%

Louisiana Local Government Environmental Facilities & Community Development Authority, RB,	3,000	3,093,660
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Westlake
Chemical Corp.
Projects, 6.75%,
11/01/32

Maryland

1.8%

Maryland EDC, RB, Transportation Facilities Project, Series A, 5.75%, 6/01/35	615	621,150
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Maryland EDC, Refunding RB, Health & Mental Hygiene Program, Series A, 7.75%, 3/01/25	1,765	1,782,332
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Maryland Health & Higher Educational Facilities Authority, RB, Washington Christian Academy, 5.50%, 7/01/38	590	283,194
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Maryland Health & Higher Educational Facilities Authority, Refunding RB, University of Maryland Medical System, 5.13%, 7/01/39	860	854,143
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Maryland State Energy Financing Administration, RB, Cogeneration, AES Warrior Run, AMT, 7.40%, 9/01/19	1,080	1,080,249
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4,621,068

Massachusetts

0.6%

Massachusetts Development	500	398,120
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Finance
Agency,
Refunding RB,
Eastern
Nazarene
College, 5.63%,
4/01/29
Massachusetts
Health &
Educational
Facilities
Authority, RB,
Jordan
Hospital, Series
E, 6.75%,
10/01/33

1,150

1,041,475

1,439,595

Michigan

2.7%

Advanced
Technology
Academy, RB,
6.00%, 11/01/37
County of
Wayne
Michigan, GO,
Building
Improvement,
Series A,
6.75%,
11/01/39

900

545

754,101

A 2008 independent study commissioned by the Pennsylvania State Senate estimated that capital costs of \$1.4 billion plus \$60 million annual operating costs (which yields an amortized average cost of approximately \$28 per lb of nitrogen reduction per year) will be required to upgrade the municipal wastewater treatment plants in Pennsylvania to meet the initial standards then in place to meet the US EPA's programmatic mandates set by the Chesapeake Bay Program (which mandates appear to have been accelerated). We believe this study materially underestimates the potential costs for the nutrient reductions now mandated. **Bion anticipates that it will be able to profitably sell nutrient credits from its Kreider facilities (and subsequent projects) if prices are in the range of \$8-\$12 (or higher) per lb of nitrogen reduction (roughly the equivalent of the projected municipal wastewater upgrade annual operating costs alone), of which there is no assurance,** thereby creating potential savings to PA ratepayers of a significant portion of the \$1.4 billion capital cost the study indicated would be required for wastewater treatment plant nitrogen reduction upgrades, if Bion's technology were adopted to produce the required nitrogen reductions under the PA portion of the Chesapeake Bay Program from livestock waste in PA.

On January 22, 2013, the Pennsylvania Legislative Budget and Finance Committee published a study (Report) detailing the economic and environmental benefits that would result from the implementation of a competitively bid, request for proposal (RFP) program for nitrogen reductions to fulfill Pennsylvania's obligations under the US EPA-mandated Chesapeake Bay Total Maximum Daily Load (CB TMDL). We agree with and support the basic conclusions and recommendations of the Report. Links to both the full Report and a summary are available on the homepage of Bion's website at www.biontech.com. The Report demonstrates that implementation of such a RFP program would result in dramatically lower cost compliance with Pennsylvania's requirements under the CB TMDL

and would also provide a host of additional environmental and economic benefits to Pennsylvania's interior freshwater resources and communities.

The Report (which references Bion in numerous places) concluded that:

(1)

Adoption of the competitively-bid RFP program would reduce Pennsylvania's Chesapeake Bay nutrient reduction compliance costs by up to 80% through the purchase of verified nitrogen reductions from all public and private sector sources, including technology providers such as Bion. The Report estimates that adoption of a competitive RFP program for nitrogen reductions would result in reducing Pennsylvania's compliance expenditures from a projected cost of \$628M to \$110M in 2015 and from \$1.7B to \$250M in 2025. The Report further concludes that absent the implementation of cost-cutting measures, Pennsylvania's compliance with the storm water and agricultural reduction mandates in the CB TMDL standard is at risk of default as there is insufficient funding available to comply under today's existing cost structure. The CB TMDL was established by the US EPA to protect and restore the Bay after decades of decline in water quality and aquatic life due to excess nitrogen from the surrounding watershed.

(2)

The use of verified nitrogen reductions from agricultural (and primarily livestock) sources to achieve CB TMDL compliance will generate substantial economic and environmental benefits, well beyond the cost savings of the CB TMDL compliance itself. These ancillary benefits are in the form of increased agricultural investments and significant improvements to the State's local fresh water resources.

(3)

Adoption would significantly reduce nitrogen and phosphorous impacts to local freshwater resources such as streams, lakes and groundwater, thereby reducing long term freshwater quality compliance costs. These local reductions would be a by-product of achieving Chesapeake Bay reductions since it requires (on average) the upstream reduction of two to five pounds of nitrogen and as much as twenty pounds of phosphorous to achieve a one pound reduction of these nutrients to the Chesapeake Bay. The long term economic value and environmental benefits to interior freshwater sources could well be greater than the downstream estuary cost savings and benefits.

The Report's conclusions support adoption of a competitive bidding platform for nitrogen reductions as a cost-effective solution to the high costs facing state and local tax and rate payers. The Report also demonstrates that this strategy would provide tangible environmental, economic, quality of life and health benefits to those upstream rural communities which have shouldered much of the economic cost of downstream nutrient reductions, with little or no benefit to their local communities.

A significant portion of Bion's current activities concern efforts with private and public stakeholders (at local and state level) in PA, (and other Chesapeake Bay, Midwest and Great Lakes states) and at the federal level (EPA and other executive departments and Congress) to establish appropriate public policies which will create regulations and funding mechanisms that foster installation of the low cost, technology-based environmental solutions that Bion (and others) can provide through clean-up of agricultural waste streams. In January 2013, the Pennsylvania Legislative Budget and Finance Committee issued a report stating that targeting upstream livestock would save Pennsylvania's taxpayers up to 80% of previously estimated costs (potential savings for PA in excess of a billion dollars per year over the next 20 years) which would be available for other needs (notably aging drinking water and sewer infrastructure) while creating large local benefits of an upstream treatment strategy including reduced freshwater compliance costs, future cost avoidance of treating drinking water from contaminated local aquifers and increased economic activity for agriculture, tourism and recreation. The Coalition for an Affordable Bay Solution (Coalition) was formed to support the creation of a competitively-bid nitrogen trading program in Pennsylvania that will enable Pennsylvania to capture the economic benefits outlined in the legislative study. The Coalition supports legislation to establish a competitively-bid RFP program for nitrogen reductions, where bids will also be scored to reflect the value of the benefits to PA's interior waterways and communities. Founding members of the Coalition represent both Chesapeake Bay and national industry participants, and include Bion, JBS, SA, Kreider Farms, and Fair Oaks Farms. The head of the Coalition is Ed Schafer, Bion's Vice Chairman. The Company believes that: i) the April 2015 release of a report from the Pennsylvania Auditor General titled "Special Report on the Importance of Meeting Pennsylvania's Chesapeake Bay Nutrient Reduction Targets" which highlighted the economic consequences of EPA-imposed sanctions if the state fails to meet the 2017 TMDL targets, as well as the need to support using low-cost solutions and technologies as alternatives to higher-cost public infrastructure projects, where possible, and ii) the April 2015 introduction of Senate Bill 724 (successor to prior SB 924) "The Watershed Improvement Act", which, if adopted, would have established a program that will allow the Pennsylvania's tax- and rate-payers to meet their EPA-mandated Chesapeake Bay pollution reductions at significantly lower cost by purchasing verified reductions (by competitive bidding) from all sources, including those that Bion can produce through livestock waste treatment, represent visible evidence of progress being made on these matters in Pennsylvania. Such legislation, if passed and signed into law, will potentially enable Bion (and others) to compete for public funding on an equal basis with subsidized agricultural best management practices and public works and storm water authorities. On May 6, 2015, the PA Senate Majority Policy Committee held a hearing on SB 724. Testifying in support of this legislation was Elliot Keller of JBS in Souderton PA, Phil Durgin - Executive Director

of the PA Legislative Budget and Finance Committee, Ron Kreider of Kreider Farms, Ed Schafer representing the Coalition, and Mike McCloskey representing the National Milk Distributors Association. **Bion's activity related to such legislation has recently intensified with increased stakeholder support (and increasing attacks on the Company by those opposed to the legislation) and Bion believes the primary provisions of such legislation will be incorporated into legislation that may be passed (in some version) by the Pennsylvania Legislature during 2016-2017, but cannot predict the exact final content of such legislation or guarantee such passage.** Note, however, that there was vocal opposition to SB 724 from threatened stakeholders committed to the existing status quo approaches--- a significant portion of which was focused on attacking (in often inaccurate and/or vilifying ways) Bion in/through social media and internet articles, blogs, press releases, twitter posts and re-tweets, rather than engaging the substantive issues. The Company responded in a press release and postings on its website. As a result, Bion has been exploring the use of social media including Facebook, twitter and other approaches to accurately communicate about the Company's business and positions. If legislation similar to SB 724 is passed and implemented (in something close to its current form), Bion expects that the policies and strategies being developed in PA will not only benefit the Company's existing and proposed PA projects, but will also subsequently provide the basis for a larger Chesapeake Bay watershed strategy and, thereafter, a national clean water strategy.

The Company believes that Pennsylvania is "ground zero" in the long-standing clean water battle between agriculture and the further regulation of agriculture relative to nutrient impacts. The ability of Bion and other technology providers to achieve verified reductions from agricultural non-point sources can resolve the current stalemate and enable implementation of constructive solutions that benefit all stakeholders, providing a mechanism that ensures that taxpayer funds will be used to achieve the most beneficial result at the lowest cost, regardless of source. All sources, point and non-point, rural and urban, will be able to compete for tax payer-funded nitrogen reductions in a fair and transparent process; and since payment from the tax and rate payers would now be performance-based, these providers will be held financially accountable.

We believe that the overwhelming environmental, economic, quality of life and public health benefits to all stakeholders in the watershed, both within and outside of Pennsylvania, make the case for adoption of the strategies outlined in the Report less an issue of "if", but of "when and how". The adoption of a competitive procurement program will have significant positive impact on technology providers that can deliver verified nitrogen reductions such as Bion, by allocating existing tax- and rate-payer clean water funding to low cost solutions based upon a voluntary and transparent procurement process. The Company believes that implementation of a competitively-bid nutrient reduction program to achieve the goals for the Chesapeake Bay watershed can also provide a working policy model and platform for other states to adopt that will enhance their efforts to comply with both current and future

requirements for local and federal estuarine watersheds, including the Mississippi River/Gulf of Mexico, the Great Lakes Basin and other nutrient-impaired watersheds.

Bion estimates that the overall market opportunity for Bion in the Chesapeake Bay watershed is large and of long duration. Most (if not all) of the publicly proposed new (or upgraded) municipal waste water and storm water treatment facilities in the Chesapeake Bay watershed in PA, Maryland, Virginia and Washington, DC have projected costs (capital and operating) far in excess of the costs involved in reducing nutrients using Bion's Systems to treat CAFO wastes at the source. While regulatory and enforcement policy is still evolving and, therefore, the impact of those future policies upon Bion's operations cannot be precisely predicted and/or fully quantified, Bion believes that the tremendous difference between its cost to remove nutrients from a concentrated livestock manure waste stream and the cost required for reduction of nutrients from diluted conventional waste water and storm water treatment technologies makes it reasonable to believe that Bion's potential profitability from projects in the Chesapeake Bay watershed should be significant. Based on the aggregate size of livestock operations in the Chesapeake Bay watershed, Bion believes that the potential market for reductions in nitrogen loadings to the Chesapeake Bay watershed from livestock can be reasonably anticipated to increase tenfold (or more) to total in excess of 65 million (or more) pounds annually (including airborne ammonia) over the next decade with certified verified nutrient reductions potentially generated equaling 50% to 60% of that aggregate required nitrogen reduction. Bion hopes that some significant portion of the nutrient reductions related to this clean-up mandate will be made by Bion Systems (which portion cannot be reasonably estimated at this time).

We believe that the credits from the Kreider 1 dairy project (verified by the PADEP) represent the first nutrient credits from multi-media (air and water) reductions from an unregulated, non-point source (livestock) technology-based project to be verified (including ammonia reductions). These credits will be equivalent to municipal wastewater treatment plant reductions once regulatory issues are resolved. Further, we believe this will provide, over time, a basis for credit trading throughout the Chesapeake Bay watershed basin-wide (beyond just Pennsylvania where the credits are being generated to the other states and Washington, DC). An established basin-wide trading program will potentially broaden the market for credits from smaller local watersheds to the entire Chesapeake Bay Watershed.

Bion has undertaken, and will continue to pursue, work to establish appropriate public policies to facilitate environmental clean-up of CAFOs in the Chesapeake Bay states and at the federal level and in other locales.

Bion also believes that it is reasonable to assume that a version of the Chesapeake Bay Program strategies developed by the US EPA and various state regulatory agencies to address the issue of excess nitrogen loadings to the Chesapeake Bay watershed clean-up, will be subsequently applied to deal with the much larger nutrient pollution problems of the Mississippi River Basin that are a primary cause of the 'Dead Zone' in the Gulf of Mexico and similar problems in the Great Lakes and elsewhere. The US EPA has stated the intention that the strategies being developed for the Chesapeake Bay will be utilized in the Mississippi River Basin and other watersheds in the U.S. **Note, however, that such an EPA initiative is certain to generate significant political opposition.** The Mississippi River Basin alone has been estimated to require more than 1 billion pounds of annual nitrogen reduction to remediate the dead zone in the Gulf of Mexico. Applying the same metrics as above (Bion's ability to profitably provide nitrogen reductions at a cost of \$8-12 per pound per year compared to municipal wastewater and storm water removal costs of \$35 or higher per pound per year), using Bion-type solutions would represent a potential benefit in excess of \$25 billion annually to tax- and rate-payers of the 31 Mississippi River Basin states and the federal government. We believe that Bion will potentially have large business opportunities for utilization of its technology as efforts to clean up such polluted areas develop, but at present such opportunities are not quantifiable nor can a definitive timeline be predicted.

RECENT FINANCINGS

Sales of Common Stock during 2015 and 2016 Fiscal Years

During the year ended June 30, 2016, the Company sold 393,698 shares of its unregistered common stock (not including issuance of 134,534 shares to consultants and employees pursuant to its 2006 Consolidated Incentive Plan, 107,500 shares issued to entities for services and 335,698 shares issued upon conversion of debt). During the year ended June 30, 2016, the Company sold its unregistered securities as follows: a) 393,698 units at \$0.80 per share, and received gross proceeds of \$314,957 and net proceeds of \$290,461 (each unit consisted of one share of the Company's restricted common stock and one warrant to purchase half a share of the Company's restricted common stock at \$1.10 per share until June 30, 2017). The Company also exercised 221,252 warrants at a reduced price of \$1.05 per warrant and received gross proceeds of \$232,315 and exercised 300,725 warrants at \$0.75 per warrant and received gross proceeds of \$220,834, including a subscription receivable of \$7,500 for 10,000 shares and a conversion of 6,280 warrants for debt of \$2,355.

During the year ended June 30, 2015, the Company sold 1,918,633 shares of its unregistered common stock (not including issuance of 119,027 shares to consultants and employees pursuant to its 2006 Consolidated Incentive Plan, 1,620 shares issued to an entity for services and 466,251 shares issued upon conversion of debt). During the year ended June 30, 2015, the Company sold its unregistered securities as follows: a) 35,000 restricted common stock at \$0.75 per share, and received gross proceeds of \$26,250; and b) 1,800,000

units at \$0.50 per unit and received gross proceeds of \$900,000 and net proceeds of \$838,478 (each unit consisted of one share of the Company's restricted common stock and one warrant to purchase half a share of the Company's restricted common stock at \$0.75 per share until June 30, 2016). The Company also exercised 83,633 warrants at a reduced price of \$1.05 per warrant and received gross proceeds of \$87,815 including subscriptions receivable of \$13,125 for 12,500 shares. In all of these transactions the Company relied on the exemptions in Section 4(2) of the Securities Act of 1933, as amended, and/or under Rule 506 of Regulation D under the Securities Act of 1933, as amended.

COMPETITION

There are a significant number of competitors in the waste treatment industry who are working on animal related pollution issues. This competition is increasing with the growing governmental and public concern focused on pollution due to CAFO wastes. Waste treatment lagoons which depend on anaerobic microorganisms ("anaerobic lagoons") are the most common traditional treatment process for animal waste on large farms within the swine and dairy industries. Additionally, many beef feedlots, poultry facilities and dairy farms simply scrape and accumulate manure for later field application. Both lagoon and scrape/pile manure storage approaches are coming under increasing regulatory pressure due to associated odor, nutrient management and water quality issues and are facing possible phase-out in some states. Although we believe that Bion has the most economically and technologically viable solution for the current problems, other alternative (though partial) solutions do exist including, for example, synthetic lagoon covers (which are placed on the top of the water in the lagoon to trap the gases), methane digesters (a tank which uses anaerobic microorganisms to break down the waste to produce methane), multistage anaerobic lagoons and solids separators (processes which separate large solids from fine solids). Additionally, many efforts are underway to develop and test new technologies.

Our ability to compete is dependent upon our ability to obtain required approvals and permits from regulatory authorities and upon our ability to introduce and market our Systems in the appropriate industry and geographic segments.

There is also extensive competition in the livestock, ethanol production, biomass renewable energy, organic soil amendment/fertilizer/organic fertilizer and feed ingredient markets. There are many companies that are already selling products to satisfy demand in the sectors of these markets we are trying to enter. Many of these companies have established marketing and sales organizations and customer commitments, are supporting their products

with advertising, sometimes on a national basis, and have developed brand name recognition and customer loyalty in many cases.

Additionally, in recent years, a number of companies have discussed and/or attempted to implement some version of closed loop integrated projects in the past, including without limitation, Panda Ethanol, E3 BioFuels and Prime BioSolutions, and are, or have in the past, pursued, with limited success to date, the development of various forms of such projects which combine CAFOs and ethanol plants and utilize the CAFO waste stream to produce energy for the ethanol plant and the CAFO herd to consume the distillers grain by-product of the ethanol production. While a very limited number of entities (including those named above) have announced projects and/or solutions that sound similar to the Company's Integrated Projects with limited success to date, there appear to be significant differences including without limitation, the use of technology that is based on either manure 'gasification' or capturing methane from the waste stream using anaerobic digesters (ADs), which technologies do not reduce polluting nutrient releases and/or gaseous emissions in the manner or to the extent that Bion's technology reduces such negative environmental impacts. Further, although traditional ADs do produce methane that can be used to replace some or all of the natural gas requirement of an ethanol plant, the conventional AD process produces materially less energy per animal that Bion believes will be produced by its 2G Tech platform (which may in some iterations integrate small AD modules) from the biomass extracted from the CAFO waste stream based on Bion's internal analysis.

None of the technologies of which the Company is aware appear to represent solutions to the nutrient and atmospheric environmental problems of CAFOs addressed by Bion's technology, or have any independent data supporting claimed environmental benefits, and, therefore, the Company believes that their potential projects will be limited to locations in which CAFOs have already been permitted and limited to the existing CAFO size.

DEPENDENCE ON ONE OR A FEW MAJOR CUSTOMERS

In our Projects (including Integrated Projects) business segment, we will most likely be dependent upon one or a few major customers/partners/joint venturers since a relatively limited number of Projects (including Integrated Projects) will be developed by the Company. We anticipate initially developing, owning interests in, and operating only one or a few Projects commencing during 2017, and, thereafter, developing a limited number of Projects at a time. Thus, at least for the near future, our revenues will be dependent on a relatively small number of major Projects, participants and/or customers.

In our CAFO Retrofit/remediation business segment, we currently have only one operating System and contracts with only a single party. However, there are thousands of CAFOs in the United States and we anticipate that in the future we will have agreements with many

CAFO customers.

PATENTS

We are the sole owner of seven United States patents, one Australian patent, two Canadian patents, one patent from New Zealand and two patents from Mexico:

Patent Numbers and date of issue:

24

United States Currently Issued:

(1)

6,689,274 2/10/04: Low Oxygen Organic Waste Bioconversion System: (NdeN) Jere Northrop & James W. Morris (Exp 6/28/2021)

(2)

6,908,495 6/21/05: Low Oxygen Organic Waste Bioconversion System: (NdeN+divisional) Jere Northrop & James W. Morris (Exp 5/2/2021)

(3)

7,431,839 10/7/08: Low Oxygen Biologically Mediated Nutrient Removal: (NdeN+PwA) James W. Morris & Jere Northrop (Exp 12/26/2021)

(4)

7,575, 685 8/18/09: Low Oxygen Biologically Mediated Nutrient Removal: (NdeN+PwoA) James W. Morris & Jere Northrop (Exp 2/8/2021)

(5)

7,879,589 2/1/11: Micro-Electron Acceptor Phosphorous Accumulating Organisms: (NdeN+PwoA Microbial) James W. Morris & Jere Northrop (Exp 11/10/20)

(6)

8,039,242 10/18/11: Low Oxygen Biologically Mediated Nutrient Removal: (NdeN+PwoA Microbial) James W. Morris & Jere Northrop (Exp 11/10/20)

(7)

8,287,734 10/16/12: Method for Treating Nitrogen in Waste Streams: (OCN) Jere Northrop & James W. Morris (Exp 3/20/31)

Australia Issued:

(1)

2002-227,224 12/14/06: Low Oxygen Organic Waste Bioconversion System: (NdeN) Jere Northrop & James W. Morris (Exp 11/8/2021)

Canada Currently Issued:

(1)

2,428,417 1/15/13: Low Oxygen Organic Waste Bioconversion System: (NdeN) Jere Northrop & James W. Morris (Exp 11/8/21).

(2)

2,503,166 10/16/12: Low Oxygen Biologically Mediated Nutrient Removal: (NdeN+PwA) Jere Northrop & James W. Morris (Exp 11/8/21).

Mexico Issued:

(1)

240,124 9/8/06: Low Oxygen Organic Waste Bioconversion System; 9/8/06 (notified 3/26/07) (NdeN) Jere Northrop & James W. Morris (Exp 11/8/2021)

(2)

263,375 12/19/08: Low Oxygen Organic Waste Bioconversion System: (NdeN) Jere Northrop & James W. Morris (Exp 11/8/2021)

New Zealand Currently Issued:

(1)

526,342 7/7/05: Low Oxygen Organic Waste Bioconversion System: (NdeN) Jere Northrop & James W. Morris (Exp 11/8/2021)

We are also the sole owner of, or possess the contractual right to acquire exclusive patent rights to (as noted below using an "*"), two United States patent applications and one international (PCT) patent application as set forth below:

United States Currently Pending:

(1)

14/483,424 (09/11/14 application date): Wastewater Treatment Using Controlled Solids Input to an Anaerobic Digester: (UltraFilter) Dominic T. Bassani, Morton Orentlicher.

(2)

14/852,836 (09/14/15 application date): Process to Recover Ammonium Bicarbonate from Wastewater: Morton Orentlicher & Mark M. Simon.*

International (PCT) Currently Pending:

(1)

PCT/US2016/13254 (01/13/16 application date): Process to Recover Ammonium Bicarbonate from Wastewater: Morton Orentlicher & Mark M. Simon.*

In addition to such factors as innovation, technological expertise and experienced personnel, we believe that a strong patent position is increasingly important to compete effectively in the businesses on which we are focused. It is likely that we will file applications for additional patents in the future. There is, however, no assurance that any such patents will be granted.

It may become necessary or desirable in the future for us to obtain patent and technology licenses from other companies relating to technologies that may be employed in future products or processes. To date, we have not received notices of claimed infringement of patents based on our existing processes or products, but due to the nature of the industry, we may receive such claims in the future.

We generally require all of our employees and consultants, including our management, to sign a non-disclosure and invention assignment agreements upon employment with us.

RESEARCH AND DEVELOPMENT

Current research and development work is focused on: a) additional applications for our 2G Tech with its emphasis on increasing efficiencies, lowering of capital and operating costs, and b) work toward completion of the development of our 3G Tech (the initial version of which is ready for implementation in an appropriate Project) with emphasis on increased recovery of valuable by-products (including nutrients in organic and/or non-organic forms, production of renewable energy from by-products together with related renewable energy and/or environmental credits). Bion believes its 3G Tech will produce significantly greater value from the CAFO waste stream through the recovery of a concentrated natural nitrogen fertilizer and pipeline-quality natural gas.

During the years ended June 30, 2016 and June 30, 2015, respectively, we expended approximately \$316,000 and \$397,000 (excluding non-cash stock-based compensation) on research and development activities related to our technology platform applications in support of large-scale, economically and environmentally sustainable Projects and Retrofits. During the 2016 fiscal year, Bion's research and development has been focused on development work to complete and further refine development of our 3G Tech which will have the capacity to process dry, poultry CAFO waste streams (in addition to wet dairy/beef/swine CAFO waste streams) and increase our ability to recover marketable by-products from the waste stream remediation including renewable natural gas and nitrogen products (organic and non-organic). Work has also involved modifying and adding

unit processes to our 2G Tech platform with the objective of reducing capital costs and operating costs, while generating commercial equivalent by-products (and therefore, potential revenue streams) and significantly increasing environmental efficiency. As a result of these efforts (including their continuation during the current period), Bion made new patent filing(s) during the 2015 and 2016 fiscal years. The Company anticipates completion of its pilot system and pre-commercial testing for its 3G Tech by end of the current fiscal year. Our technology focus is to separate and aggregate the various assets in the waste stream and then to re-assemble them to maximize their economic value and our current research and development efforts have been focused on developments that will enhance potential sales revenues from renewable energy (both from solids combustion and methane generation thru the use of anaerobic/microaerobic digestion modules), fertilizer and soil amendment products (organic and inorganic), water reuse, environmental and reduction credits (including but not limited to nutrient, carbon, sediment, water and pathogen reduction) while reducing capital costs and operating costs. Bion continues to focus on normalizing its technology platform for use on multiple species. This effort has required significant work and resource allocation on research regarding balancing the activities of each unit process so that its output enables the subsequent unit processes to maximize efficiency and discharge to the subsequent unit in order to process a feedstock cost effectively. The by-products of this series of unit processes (which include certain Bion proprietary elements) are then reassembled into products to maximize their economic value. To date, research and development results have supported our objectives. In prior periods (and continuing to date), Bion's main efforts were directed at further refinement of our 2G Tech and its applications. In addition, substantial research and development activity was focused on design and refinement of all aspects of the technology and integration engineering related to the energy balances, renewable energy production and on-site utilization, related to Integrated Project issues and our business model. Research activities were also focused on factors related to renewable energy production from CAFO waste including coarse solid recovery, drying and use for renewable energy production, as well as fine solids recovery, drying and utilization as fertilizer and/or animal feed, water re-use and other matters.

Environmental Protection/Regulation and Public Policy

In regards to Retrofits and development of Projects, we will be subject to extensive environmental (and other) regulations related to CAFO's, ethanol production and end product producers. To the extent that we are a provider of systems and services to others that result in the reduction of pollution, we are not under direct enforcement or regulatory pressure. However, we are involved in the business of CAFO waste treatment and are impacted by environmental regulations in at least five different ways:

Our marketing and sales success depends, to a substantial degree, on the pollution clean-up requirements of various governmental agencies, from the Environmental Protection Agency (EPA) at the federal level to state and local agencies;

Our System design and performance criteria must be responsive to the changes in federal, state and local environmental agencies' effluent and emission standards and other requirements;

Our System installations and operations require governmental permits and/or other approvals in many jurisdictions;

To the extent we own or operate Projects (including Integrated Projects with CAFO facilities and ethanol plants), those facilities will be subject to environmental regulations; and

Appropriate public policies need to be developed and implemented to facilitate environmental clean-up at CAFOs and the sale of nutrient reductions from such activities in order for the Company to monetize the nutrient reductions generated by its facilities.

Additionally, our activities are affected by many public policies and regulations (federal, state and local) related to other industries such as CAFO agriculture, municipal waste and storm water treatment, and others. For example, the differences in the regulatory requirements for agriculture and municipal waste water clean-up currently in place negatively impair the development of viable markets for nutrient reduction credits.

EMPLOYEES

As of September 1, 2016, we had 7 employees and primary consultants, all of whom are performing services for the Company on a full-time basis. The Company utilizes other consultants and professionals on an as needed basis. Our future success depends in significant part on the continued service of our key personnel and the ability to hire additional qualified personnel. The competition for highly qualified personnel is intense, and there can be no assurance that we will be able to retain our key managerial and technical

employees or that we will be able to attract and retain additional highly qualified technical and managerial personnel in the future. None of our employees is represented by a labor union, and we consider our relations with our employees to be good. None of our employees is covered by "key person" life insurance.

ITEM 1A. RISK FACTORS.

Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

The Company maintains its corporate office at Box 566/1774 Summitview Way, Crestone, Colorado 81131, the office of its President, and its main corporate telephone number is: (212) 758-6622.

We are the sole owner of seven United States patents, one Australian patent, two Canadian patents, one patent from New Zealand and two patents from Mexico (plus the pending application(s) set forth at Item 1, Patents above).

ITEM 3. LEGAL PROCEEDINGS.

The Company is currently involved in no litigation matters.

In May 2014 Mr. Morris, the Company's former Chief Technology Officer, initiated litigation against the Company (Morris v Bion Environmental Technologies, Inc., 14-cv-02732-ADS-GRB, United States District Court, Eastern District of New York) related to his termination effective November 30, 2013. Mr. Morris sought payment of severance pay (up to \$90,000) plus certain previously accrued obligations totaling approximately \$87,000 plus accrued interest (which sums had been accrued by the Company, despite the fact that the Company was disputing the obligations) and attorney's fees plus reinstatement of options to purchase the Company's common stock and other items. The litigation was resolved when the Company and Mr. Morris entered into a negotiated general release and waiver of all claims in March 2015, pursuant to which the Company agreed to pay Mr. Morris and his attorney \$20,000 and \$10,000, respectively, and issued Mr. Morris 10,000 shares of the Company's common stock valued at \$6,600. On April 9, 2015, the case was formally closed by the presiding judge. As a result of the general release, during the year ended June 30, 2015, the Company reversed approximately \$271,000 of previously recorded expenses for deferred compensation and severance pay which it had accrued in relation to Mr. Morris' employment with and termination by the Company.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and has accelerated the Pennvest Loan and demanded that PA1 pay \$8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA1 did not make the payment and does not have the resources to make the payment demanded by Pennvest. During August 2012, the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 system met the technology guaranty standards which were incorporated in the Pennvest financing documents and, as a result, the Pennvest Loan is now solely an obligation of PA1. Discussions, exchanges of correspondence and negotiations have taken place haltingly between PA1 and Pennvest concerning this matter over the past year and are expected to continue in some form during the current fiscal year. It is not possible at this date to predict the outcome of such negotiations, but the Company believes that at some point a loan modification agreement will be reached that will allow time for the development of a more robust market for nutrient reductions in Pennsylvania, of which there is no assurance. PA1 and Bion anticipate that it will be necessary for the Company to evaluate various options with regard to Kreider 1 over the next 30-180 days. Litigation has not commenced in this matter but has been threatened by Pennvest. Such litigation is likely if negotiations do not produce a resolution.

The Company currently is not involved in any other material litigation.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

(a) Market Information

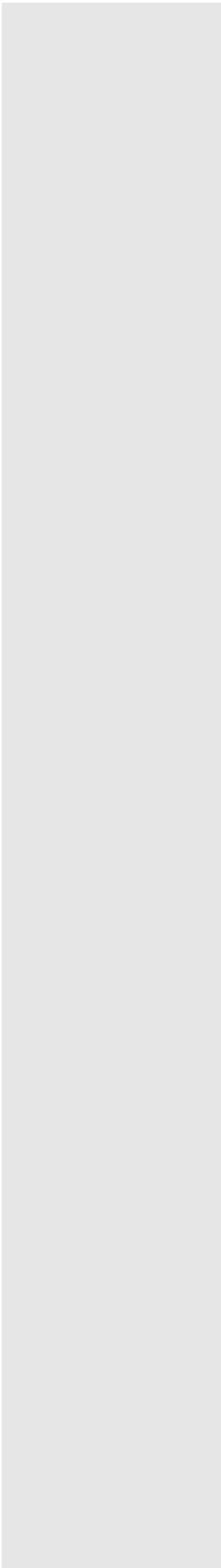
Our common stock is quoted on the Over-The-Counter Electronic Bulletin Board under the symbol "BNET." The following quotations reflect inter dealer prices, without retail mark up, markdown or commissions and may not represent actual transactions.

2015

2016

Fiscal
Year
Ended
June 30,

High



Low

High

Low

First
Fiscal
Quarter

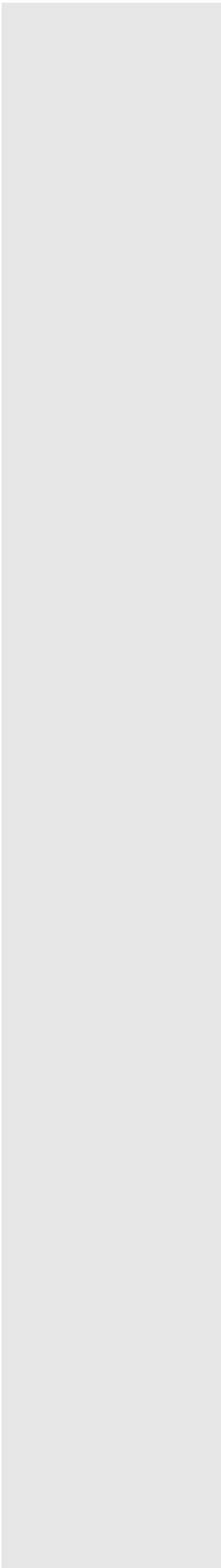
\$1.06

\$0.68

\$1.27

\$0.5178

Second
Fiscal
Quarter



\$0.78

\$0.35

\$1.01

\$0.7101

Third
Fiscal
Quarter

\$1.15

\$0.40

\$1.00

\$0.671

Fourth
Fiscal
Quarter

\$1.46

\$0.65

\$0.9645

\$0.631

(b) Holders

The number of holders of record of our common stock at September 1, 2016 was approximately 1,450. Many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, so we are unable to estimate the number of stockholders represented by these record holders.

The transfer agent for our common stock is Corporate Stock Transfer, Inc., 3200 Cherry Creek Drive South, Suite 430, Denver, Colorado 80209.

(c) Dividends

We have never paid any cash dividends on our common stock. Our board of directors does not intend to declare any cash dividends in the foreseeable future, but instead intends to retain earnings, if any, for use in our business operations. The payment of dividends, if any, in the future is within the discretion of the board of directors and will depend on our future earnings, if any, our capital requirements and financial condition, and other relevant factors.

During each of fiscal year 2016 and 2015 the Company paid an aggregate dividend of \$0 and \$0, respectively, on shares of Series B Preferred Stock and Series C Preferred Stock which were outstanding during the year. A dividend of \$2,000 was accrued on Series B Preferred Stock during each of the 2015 and 2016 fiscal years.

(d) Securities Authorized for Issuance Under Equity Compensation Plans

In June 2006 the Company adopted its 2006 Consolidated Incentive Plan, as amended ("Plan"), which terminated all prior plans and merged them into the Plan. The Plan was ratified by the Company's shareholders in October 2006. Under the Plan, Directors may grant Options, Stand Alone Stock Appreciation Rights ("SAR's"), shares of Restricted Stock, shares of Phantom Stock and Stock Bonuses with respect to a number of Common Shares that in the aggregate does not exceed 22,000,000 shares. The maximum number of Common Shares for which Incentive Awards, including Incentive Stock Options, may be

granted to any one Participant shall not exceed 1,000,000 shares in any one calendar year; and the total of all cash payments to any one participant pursuant to the Plan in any calendar year shall not exceed \$500,000. As of September 1, 2016, 4,260,537 Options have been granted and are outstanding under the Plan (as amended), including all options granted under prior merged plans, and options granted from July 1, 2015 through September 1, 2016. Of the 4,260,537 options, 4,210,537 are vested as of September 1, 2016. Additionally, 117,500 shares of Contingent Stock Bonuses (of which 117,500 are vested) and 1,230,000 shares of Stock Bonuses have been granted under the Plan, all of which are vested as of September 1, 2016.

Equity Compensation Plan Information

The following table summarizes share and exercise price information about the Company's equity compensation plans as of June 30, 2016:

Plan Category

Number of securities

to be

issued upon exercise
of

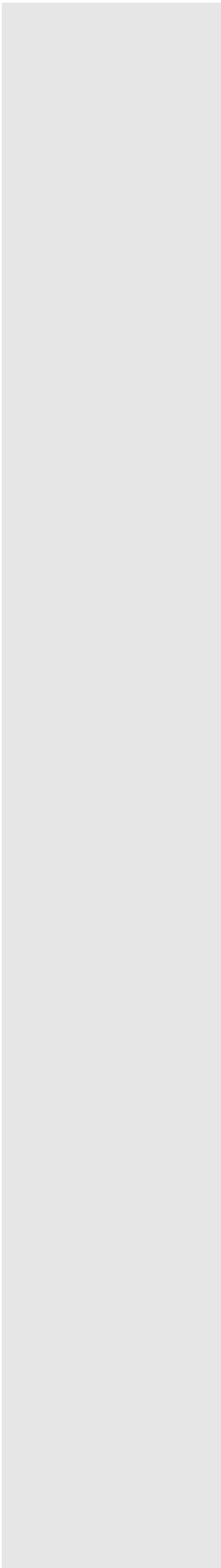
outstanding options,
warrants and rights

Weighted-average
exercise price of
outstanding options,
warrants and rights

Number of securities
remaining available
for future issuance
under equity
compensation plans

Equity compensation
plans approved by
security holders

4,225,537



1.79

17,774,463

Equity compensation
plans not approved by
security holders

-

-

-

Total

4,225,537

1.79

17,774,463

(e) Recent Sales of Unregistered Securities

During the year ended June 30, 2016, the Company sold 393,698 shares of its unregistered common stock (not including issuance of 134,534 shares to consultants and employees pursuant to its 2006 Consolidated Incentive Plan, 107,500 shares issued to entities for services and 335,698 shares issued upon conversion of debt). During the year ended June 30, 2016, the Company sold its unregistered securities as follows: a) 393,698 units at \$0.80 per share, and received gross proceeds of \$314,957 and net proceeds of \$290,461 (each unit consisted of one share of the Company's restricted common stock and one warrant to purchase half a share of the Company's restricted common stock at \$1.10 per share until June 30, 2017). The Company also exercised 221,252 warrants at a reduced price of \$1.05 per warrant and received gross proceeds of \$232,315 and exercised 300,725 warrants at \$0.75 per warrant and received gross proceeds of \$220,834, including a subscription receivable of \$7,500 for 10,000 shares and a conversion of 6,280 warrants for debt of \$2,355. In all of these transactions the Company relied on the exemptions in Section 4(2) of the Securities Act of 1933, as amended, and/or under Rule 506 of Regulation D under the Securities Act of 1933, as amended.

During the year ended June 30, 2015, the Company sold 1,918,633 shares of its unregistered common stock (not including issuance of 119,027 shares to consultants and employees

pursuant to its 2006 Consolidated Incentive Plan, 1,620 shares issued to an entity for services and 466,251 shares issued upon conversion of debt). During the year ended June 30, 2014, the Company sold its unregistered securities as follows: a) 35,000 restricted common stock at \$0.75 per share, and received gross proceeds of \$26,250; and b) 1,800,000 units at \$0.50 per unit and received gross proceeds of \$900,000 and net proceeds of \$838,478 (Each unit consisted of one share of the Company's restricted common stock and one warrant to purchase half a share of the Company's restricted common stock at \$0.75 per share until June 30, 2016). The Company also exercised 83,633 warrants at a reduced price of \$1.05 per warrant and received gross proceeds of \$87,815 including subscriptions receivable of \$13,125 for 12,500 shares. In all of these transactions the Company relied on the exemptions in Section 4(2) of the Securities Act of 1933, as amended, and/or under Rule 506 of Regulation D under the Securities Act of 1933, as amended.

ITEM 6. SELECTED FINANCIAL DATA.

N/A

30

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Included in ITEM 8 are the audited Consolidated Financial Statements for the fiscal years ended June 30, 2016 and 2015 ("Financial Statements").

Statements made in this Form 10-K that are not historical or current facts, which represent the Company's expectations or beliefs including, but not limited to, statements concerning the Company's operations, performance, financial condition, business strategies, and other information, involve substantial risks and uncertainties. The Company's actual results of operations, most of which are beyond the Company's control, could differ materially. These statements often can be identified by the use of terms such as "may," "will," "expect," "believe," anticipate," "estimate," or "continue" or the negative thereof. We wish to caution readers not to place undue reliance on any such forward looking statements, which speak only as of the date made. Any forward looking statements represent management's best judgment as to what may occur in the future. However, forward looking statements are subject to risks, uncertainties and important factors beyond our control that could cause actual

results and events to differ materially from historical results of operations and events and those presently anticipated or projected.

These factors include adverse economic conditions, entry of new and stronger competitors, inadequate capital, unexpected costs, failure (or delay) to gain product or regulatory approvals in the United States (or particular states) or foreign countries and failure to capitalize upon access to new markets. Additional risks and uncertainties that may affect forward looking statements about Bion's business and prospects include the possibility that markets for nutrient reduction credits (discussed below) and/or other ways to monetize nutrient reductions will be slow to develop (or not develop at all), the existing default by PA1 on its loan secured by the Kreider 1 system, the possibility that a competitor will develop a more comprehensive or less expensive environmental solution, delays in market awareness of Bion and our Systems, uncertainties and costs related to research and development efforts to update and improve Bion's technologies and applications thereof, and/or delays in Bion's development of Projects and failure of marketing strategies, each of which could have both immediate and long term material adverse effects by placing us behind our competitors and requiring expenditures of our limited resources. Bion disclaims any obligation subsequently to revise any forward looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements filed with this Report.

BUSINESS OVERVIEW

During the 2014 and 2015 fiscal years, the Company increased its research and development activities toward development of our 3G Tech with focus on augmenting the basic separate and aggregate approach of its technology platform to provide additional flexibility and to increase recovery of nutrient by-products (in organic and non-organic forms) and renewable energy production (either/both biogas and/or renewable electricity), thereby increasing potential related revenue streams and reducing dependence of its future projects on the monetization of nutrient reductions (which still remain a very important part of project revenue streams). This research and development effort also involves ongoing review of potential add-ons and applications to our technology platform for use in different regulatory and/or climate environments. These research and development activities continued through the 2016 fiscal year with increased focus on recovery of marketable byproducts (including nutrients and renewable natural gas) and completion of development of Bion's 3G Tech and technology platform. We believe such activities will continue at least through the 2017 fiscal year, subject to availability of adequate financing for the Company's operations, of which there is no assurance.

Operational results from the initial commercial system (utilizing our 2G Tech) confirmed the ability of Bion's technologies to meet its nutrient reduction goals at commercial scale for an extended period of operation. Bion's current 2G Tech platform (and the new variations under development) center on its patented and proprietary processes that separate and aggregate the various assets in the CAFO waste stream so they become benign, stable and/or transportable. Bion systems can: a) remove up to 95% of the nutrients (primarily nitrogen and phosphorus) in the effluent, b) reduce greenhouse gases by 90% (or more) including elimination of virtually all ammonia emissions, c) while materially reducing pathogens, antibiotics and hormones in the livestock waste stream. In addition to capturing a portion of valuable nutrients for reuse (in organic and/or non-organic forms), Bion's 2G Tech platform also recovers cellulosic biomass which can be used to generate renewable energy from the waste stream in a process more efficient than other technologies that seek to exploit this CAFO waste stream. Our core technology and its primary CAFO applications are now proven in commercial operations. It has been accepted by the Environmental Protection Agency (EPA) and other regulatory agencies and it is protected by Bion's portfolio of U.S. and international patents (both issued and applied for). Currently, research and development activities are underway to improve, update and move toward completion and commercialization of our 3G Tech systems to meet the needs of CAFOs in various geographic and climate areas with nutrient release constraints and to increase the recovery and generation of valuable by-products while adding the capability to treat dry (poultry) waste streams in addition to wet manure streams.

Currently, Bion is focused on using applications of its patented and proprietary waste management technologies and technology platform to pursue three main business opportunities: 1) installation of Bion systems (some of which may generate verified nutrient credits and revenues from the production of renewable energy and byproducts) to retrofit and environmentally remediate existing CAFOs (Retrofits) in selected markets where: a) government policy supports such efforts (such as the Chesapeake Bay watershed, Great Lakes Basin states, and/or other states and watersheds facing EPA total maximum daily load (TMDL) issues, and/or b) where CAFOs need our technology to obtain permits to expand or develop without negative environmental consequences; 2) development of new state-of-the-art large scale waste treatment facilities in strategic locations (Projects) (some of these may be Integrated Projects as described below) with multiple revenue streams, and 3) licensing and/or joint venturing of Bion's technology and applications (primarily) outside North America. The opportunities described at 1) and 2) above each require substantial political and regulatory (federal, state and local) efforts on the part of the Company and a substantial part of Bion's efforts are focused on such political and regulatory matters. Bion is currently pursuing the international opportunities primarily through the use of consultants with existing relationships in target.

During 2008 the Company commenced actively pursuing the opportunity presented by environmental retrofit and remediation of the waste streams of existing CAFOs which effort has met with very limited success to date. The first commercial activity in this area is represented by our agreement with Kreider Farms (KF), pursuant to which the Kreider 1 system to treat KF's dairy waste streams to reduce nutrient releases to the environment while generating marketable nutrient credits and renewable energy was designed, constructed and entered full-scale operation during 2011. On January 26, 2009 the Board of the Pennsylvania Infrastructure Investment Authority (Pennvest) approved a \$7.75 million loan to Bion PA 1, LLC (PA1), a wholly-owned subsidiary of the Company, for the initial Kreider Farms project (Kreider 1 System). After substantial unanticipated delays, on August 12, 2010 PA1 received a permit for construction of the Kreider 1 system. Construction activities commenced during November 2010. The closing/settlement of the Pennvest Loan took place on November 3, 2010. PA1 finished the construction of the Kreider 1 System and entered a period of system operational shakedown during May 2011. The Kreider 1 System reached full, stabilized operation by the end of the 2012 fiscal year. During 2011 the PADEP re-certified the nutrient credits for this project. The PADEP issued final permits for the Kreider 1 System (including the credit verification plan) on August 1, 2012 on which date the Company deemed that the Kreider System was placed in service . As a result, PA1 commenced generating nutrient reduction credits for potential sale while continuing to utilize the Kreider 1 system to test improvements and add-ons. **However, to date liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth, which limited liquidity/depth has negatively impacted Bion s business plans and has resulted in challenges to monetizing the nutrient reductions created by PA1 s existing Kreider 1 project and Bion s other proposed projects. These difficulties have prevented PA1 from generating any material revenues from the Kreider 1 project to date and raise significant questions as to when, if ever, PA1 will be able to generate such revenues from the Kreider 1 system.**

PA1 has had sporadic discussions/negotiations with Pennvest related to forbearance and/or re-structuring its obligations pursuant to the Pennvest Loan for more than three years. In the context of such discussions/negotiations, PA1 elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, PA1 has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of June 30, 2016. Due to the failure of the PA nutrient reduction credit market to develop, the Company determined that the carrying amount of the property and equipment related to the Kreider 1 project exceeded its estimated future undiscounted cash flows based on certain assumptions regarding timing, level and probability of revenues from sales of nutrient reduction credits and, therefore, PA1 and the Company recorded impairments related to the value of the Kreider 1 assets of \$1,750,000 and \$2,000,000 at June 30, 2015 and June 30, 2014, respectively. During the 2016 fiscal year, effective June 30, 2016, PA1 and the Company recorded an impairment of \$1,684,562 to the value of the Kreider 1 assets which reduced the value on the Company s books to \$0. This impairment reflects management s judgment that

the salvage value of the Kreider 1 assets roughly equals PA1's contractual obligations related to the Kreider 1 system, including expenses related to decommissioning of the Kreider 1 system, costs associated with needed capital upgrade expenses, and re-certification/ permitting amendments. See *Impairment loss on property and equipment* below.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and accelerated the Pennvest Loan and demanded that PA1 pay \$8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA1 did not make the payment and does not have the resources to make the payments demanded by Pennvest. PA1 has commenced discussions and negotiations with Pennvest concerning this matter but Pennvest has rejected PA1's proposal made during the fall of 2014. Neither party has any formal proposal on the table as of the date of this report, and only sporadic communication continues regarding the matters involved. It is not possible at this date to predict the outcome of such negotiations/discussions, but the Company believes that a loan modification agreement may be reached in the future when a more robust market for nutrient reductions develops in PA, of which there is no assurance. PA1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

The economics (potential revenues, profitability and continued operation) of the Kreider 1 System are based almost entirely on the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up. See below for further discussion.

During August 2012, the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 system met the technology guaranty standards which were incorporated in the Pennvest financing documents and, as a result, the Pennvest Loan is now solely an obligation of PA1.

The Company is currently operating the Kreider 1 System in a limited manner pending development of a more robust market for its nutrient reductions.

Bion continues its pre-develop work related to a waste treatment/renewable energy production facility to treat the waste from KF's approximately 5+ million chickens (planned to expand to approximately 9 million)(and potentially other poultry operations and/or other waste streams)('Kreider Renewable Energy Facility' or Kreider 2 Project). On May 5, 2016, the Company executed a stand-alone joint venture agreement with Kreider Farms covering all matters related to development and operation of a system to treat the waste streams from Kreider's poultry facilities in Bion PA2 LLC (PA2). During May 2011 the PADEP certified Kreider 2 Project for 559,457 nutrient credits under the old EPA's

Chesapeake Bay model. The Company anticipates that the Kreider 2 Project will be re-certified for between 1.5-2 million nutrient reduction credits (for treatment of the waste stream from Kreider's poultry) pursuant to the Company's pending reapplication (or subsequent amended application) during 2017 pursuant to the amended EPA Chesapeake Bay model and agreements between the EPA and PA. Note that this Project may be expanded in the future to treat wastes from other local and regional CAFOs (poultry and/or dairy) and/or Kreider poultry expansion (some of which may not qualify for nutrient reduction credits).

The review process to clarify certain issues related to credit calculation and verification commenced during 2014 but has been largely placed on hold while certain matters are resolved between the EPA and PA and pending development of a robust market for nutrient reductions in PA. The Company anticipates it will submit an amended application once these matters are clear. Design and engineering work for this facility, which will probably be the first to utilize Bion's 3G Tech, have not commenced, and the Company does not yet have financing in place for the Kreider 2 Project. This opportunity is being pursued through PA2. If there are positive developments related to the market for nutrient reductions in PA, of which there is no assurance, the Company intends to pursue development, design and construction of the Kreider 2 Project with a goal of achieving operational status during the 2017 calendar year, and hopes to enter into agreements related to sales of the nutrient reduction credits for future delivery (under long term contracts) during 2017 subject to verification by the PADEP based on operating data from the Kreider 2 Project. The economics (potential revenues and profitability) of the Kreider 2 Project, despite its use of Bion's 3G Tech for increased recovery of marketable by-products, are based in material part the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up.

However, liquidity in the PA nutrient credit market has been slow to develop significant breadth and depth, which lack of liquidity has negatively impacted Bion's business plans and has resulted in challenges to monetizing the nutrient reduction credits generated by PA1's existing Kreider 1 project and will most likely delay PA2's Kreider 2 Project and other proposed projects in PA.

Note that while Bion believes that the Kreider 1 System, the Kreider 2 Project and/or subsequent Bion Projects will eventually generate revenue from the sale of: a) nutrient reductions (credits or in other form), b) renewable energy (and related credits), c) sales of fertilizer products, and/or d) potentially, in time, credits for the reduction of greenhouse gas emissions. We believe that the potential market is very large, but it is not possible to predict the exact timing and/or magnitude of these potential markets at this time.

A significant portion of Bion's current activities concern efforts with private and public stakeholders (at local and state level) in PA, (and other Chesapeake Bay, Midwest and Great Lakes states) and at the federal level (EPA and other executive departments and Congress) to establish appropriate public policies which will create regulations and funding mechanisms that foster installation of the low cost, technology-based environmental solutions that Bion (and others) can provide through clean-up of agricultural waste streams. In January 2013, the Pennsylvania Legislative Budget and Finance Committee issued a report stating that targeting upstream livestock would save Pennsylvania's taxpayers up to 80% of previously estimated costs (potential savings for PA in excess of a billion dollars per year over the next 20 years) which would be available for other needs (notably aging drinking water and sewer infrastructure) while creating large local benefits of an upstream treatment strategy including reduced freshwater compliance costs, future cost avoidance of treating drinking water from contaminated local aquifers and increased economic activity for agriculture, tourism and recreation. The Coalition for an Affordable Bay Solution (Coalition) was formed to support the creation of a competitively-bid nitrogen trading program in Pennsylvania that will enable Pennsylvania to capture the economic benefits outlined in the legislative study. The Coalition supports legislation to establish a competitively-bid RFP program for nitrogen reductions, where bids will also be scored to reflect the value of the benefits to PA's interior waterways and communities. Founding members of the Coalition represent both Chesapeake Bay and national industry participants, and include Bion, JBS, SA, Kreider Farms, and Fair Oaks Farms. The head of the Coalition is Ed Schafer, Bion's Vice Chairman. The Company believes that: i) the April 2015 release of a report from the Pennsylvania Auditor General titled "Special Report on the Importance of Meeting Pennsylvania's Chesapeake Bay Nutrient Reduction Targets" which highlighted the economic consequences of EPA-imposed sanctions if the state fails to meet the 2017 TMDL targets, as well as the need to support using low-cost solutions and technologies as alternatives to higher-cost public infrastructure projects, where possible, and ii) the April 2015 introduction of Senate Bill 724 (successor to prior SB 924) "The Watershed Improvement Act", which, if adopted, would have established a program that will allow the Pennsylvania's tax- and rate-payers to meet their EPA-mandated Chesapeake Bay pollution reductions at significantly lower cost by purchasing verified reductions (by competitive bidding) from all sources, including those that Bion can produce through livestock waste treatment, represent visible evidence of progress being made on these matters in Pennsylvania. Such legislation, if passed and signed into law, will potentially enable Bion (and others) to compete for public funding on an equal basis with subsidized agricultural best management practices and public works and storm water authorities. On May 6, 2015, the PA Senate Majority Policy Committee held a hearing on SB 724. Testifying in support of this legislation was Elliot Keller of JBS in Souderton PA, Phil Durgin - Executive Director of the PA Legislative Budget and Finance Committee, Ron Kreider of Kreider Farms, Ed Schafer representing the Coalition, and Mike McCloskey representing the National Milk Distributors Association.

Bion's activity related to such legislation has recently intensified with increased stakeholder support (and increasing attacks on the Company by those opposed to the

legislation) and Bion believes the primary provisions of such legislation will be incorporated into legislation that may be passed (in some version) by the Pennsylvania Legislature during 2016-2017, but cannot predict the exact final content of such legislation or guarantee such passage. Note, however, that there was vocal opposition to SB 724 from threatened stakeholders committed to the existing status quo approaches--- a significant portion of which was focused on attacking (in often inaccurate and/or vilifying ways) Bion in/through social media and internet articles, blogs, press releases, twitter posts and re-tweets, rather than engaging the substantive issues. The Company responded in a press release and postings on its website. As a result, Bion is exploring the use of social media including Facebook, twitter and other approaches to accurately communicate about the Company's business and positions. If legislation similar to SB 724 is passed and implemented (in something close to its current form), Bion expects that the policies and strategies being developed in PA will not only benefit the Company's existing and proposed PA projects, but will also subsequently provide the basis for a larger Chesapeake Bay watershed strategy and, thereafter, a national clean water strategy.

The Company believes that Pennsylvania is "ground zero" in the long-standing clean water battle between agriculture and the further regulation of agriculture relative to nutrient impacts. The ability of Bion and other technology providers to achieve verified reductions from agricultural non-point sources can resolve the current stalemate and enable implementation of constructive solutions that benefit all stakeholders, providing a mechanism that ensures that taxpayer funds will be used to achieve the most beneficial result at the lowest cost, regardless of source. All sources, point and non-point, rural and urban, will be able to compete for tax payer-funded nitrogen reductions in a fair and transparent process; and since payment from the tax and rate payers would now be performance-based, these providers will be held financially accountable.

We believe that the overwhelming environmental, economic, quality of life and public health benefits to all stakeholders in the watershed, both within and outside of Pennsylvania, make the case for adoption of the strategies outlined in the Report less an issue of "if", but of "when and how". The adoption of a competitive procurement program will have significant positive impact on technology providers that can deliver verified nitrogen reductions such as Bion, by allocating existing tax- and rate-payer clean water funding to low cost solutions based upon a voluntary and transparent procurement process. The Company believes that implementation of a competitively-bid nutrient reduction program to achieve the goals for the Chesapeake Bay watershed can also provide a working policy model and platform for other states to adopt that will enhance their efforts to comply with both current and future requirements for local and federal estuarine watersheds, including the Mississippi River/Gulf of Mexico, the Great Lakes Basin and other nutrient-impaired watersheds.

Bion will also pursue the opportunities related to development of Projects, including Integrated Projects. Integrated Projects will include large CAFOs (such as large dairies, beef cattle feed lots and/or hog farms) with Bion waste treatment system modules processing the aggregate CAFO waste stream from the equivalent of 20,000 to 80,000 (or more) beef or dairy cows (or the waste stream equivalent of other species) while recovering

cellulosic biomass to be utilized for renewable energy production (and possibly high nutrient fine solids to be marketed as feed and/or fertilizer), integrated with CAFO end product users/processing facilities and/or a biofuel/ethanol plant capable of producing 40 million to 100 (or more) million gallons of ethanol per year. Such Integrated Projects will involve multiple CAFO modules of 10,000 or more beef or dairy cows (or waste stream equivalent of other species) with waste treatment modules on a single site and/or on sites within an approximately 30 mile radius. Bion believes its technology platform (2G Tech, 3G Tech and/or a hybrid in different situations) will allow integration of large-scale CAFO's with end product processors and/or ethanol production together with renewable energy production from cellulosic biomass recovered from the waste streams and on-site energy utilization in a 'closed loop' manner that will reduce the capital expenditures, operating costs and carbon footprint for the entire Integrated Project and each component facility. Some Projects may be developed from scratch while others may be developed in geographic proximity to (and in coordination with) existing participating CAFOs, ethanol plants and/or end product processors. Each Project is likely to have different degrees of integration, especially in the early development phases.

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The Company currently anticipates that the Kreider 2 poultry waste treatment facility in PA will be its initial Project. Bion anticipates that it will select a site for the Kreider 2 Project and/or its initial Integrated Project (and possibly additional Projects) during calendar year 2017. **Bion hopes to commence development of its initial Project by optioning land and beginning the permitting process during calendar year 2017, but delays are possible. It is not possible at this time to firmly predict where the initial Project will be developed or the order in which Projects will be developed. All potential Projects are in very early pre-development stages and may never progress to actual development or may be developed after other Projects not yet under active consideration.**

Bion also hopes to be able to move forward on additional Projects through 2017-19 to create a pipeline of Projects. Management has a 5-year development target (through calendar year 2023) of approximately 10 or more Projects. Management hopes to have identified and begun development work related to 3-5 Projects over the next 2 years. At the end of the 5-year period, Bion projects that 3-8 of these Projects will be in full operation in 3-6 states (and possibly one or more foreign countries), and the balance would be in various stages ranging from partial operation to early development stage. It is possible that one or more Projects will be developed in joint ventures specifically targeted to meet the growing animal protein demand outside of the United States (including without limitation Asia, Europe and/or the Middle East). **No Projects (including Integrated Projects) has been developed to date.**

The Company's audited financial statements for the years ended June 30, 2016 and 2015 have been prepared assuming the Company will continue as a going concern. The Company has incurred net losses of approximately \$4,522,000 and \$5,642,000 during the years ended June 30, 2016 and 2015, respectively. The Report of the Independent Registered Public Accounting Firm on the Company's consolidated financial statements as of and for the year ended June 30, 2016 includes a going concern explanatory paragraph which means that the accounting firm has expressed substantial doubt about the Company's ability to continue as a going concern. At June 30, 2016, the Company had a working capital deficit and a stockholders' deficit of approximately \$10,602,000 and \$13,938,000, respectively. **Management's plans with respect to these matters are described in this section and in our consolidated financial statements (and notes thereto), and this material does not include any adjustments that might result from the outcome of this uncertainty. However, there is no guarantee that we will be able to raise sufficient funds or further capital for the operations planned in the near future.**

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

While the Company has not recognized any significant operating revenues for the past two fiscal years, the Company has commenced generation of revenues during the year ended June 30, 2013. Revenues are generated from the sale of nutrient reduction credits, product sales, technology license fees, annual waste treatment fees and/or direct ownership interests in Integrated Projects. The Company recognizes revenue from the sale of nutrient credits and products when there is persuasive evidence that an arrangement exists, when title has passed, the price is fixed or determinable, and collection is reasonably assured. The Company expects that technology license fees will be generated from the licensing of Bion's systems. The Company anticipates that it will charge its customers a non-refundable up-front technology license fee, which will be recognized over the estimated life of the customer relationship. In addition, any on-going technology license fees will be recognized as earned based upon the performance requirements of the agreement. Annual waste treatment fees will be recognized upon receipt. Revenues, if any, from the Company's interest in Projects will be recognized when the entity in which the Project has been developed recognizes such revenue.

Stock-based compensation

The Company follows the provisions of Accounting Standards Codification (ASC) 718, which generally requires that share-based compensation transactions be accounted and recognized in the statement of income based upon their grant date fair values.

Derivative Financial Instruments:

Pursuant to ASC Topic 815 – Derivatives and Hedging (Topic 815), the Company reviews all financial instruments for the existence of features which may require fair value accounting and a related mark-to-market adjustment at each reporting period end. Once determined, the Company assesses these instruments as derivative liabilities. The fair value of these instruments is adjusted to reflect the fair value at each reporting period end, with any increase or decrease in the fair value being recorded in results of operations as an adjustment to fair value of derivatives.

Warrants:

The Company has issued warrants to purchase common shares of the Company. Warrants are valued using a fair value based method, whereby the fair value of the warrant is determined at the warrant issue date using a market-based option valuation model based on factors including an evaluation of the Company's value as of the date of the issuance, consideration of the Company's limited liquid resources and business prospects, the market price of the Company's stock in its mostly inactive public market and the historical valuations and purchases of the Company's warrants. When warrants are issued in combination with debt or equity securities, the warrants are valued and accounted for based on the relative fair value of the warrants in relation to the total value assigned to the debt or equity securities and warrants combined.

Property and equipment:

Property and equipment are stated at cost and are depreciated, when placed into service, using the straight-line method over the estimated useful lives of the related assets, generally three to twenty years. The Company capitalizes all direct costs and all indirect incrementally identifiable costs related to the design and construction of its Integrated Projects. The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized based on the amount by which the carrying value of the assets or asset group exceeds its estimated fair value, and is recognized as a loss from

operations.

Recent Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts from Customers, which supersedes the revenue recognition requirements in Revenue Recognition (Topic 605), and requires entities to recognize revenue in a way that depicts the transfer of potential goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to the exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the new standard and assessing the potential impact on its operations and financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements Going Concern: Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The guidance is effective for annual periods ending after December 15, 2016, and interim periods thereafter, early application is permitted. The Company believes the adoption of ASU No. 2014-15 will not have a material impact on its financial statements.

YEAR ENDED JUNE 30, 2016 COMPARED TO THE YEAR ENDED JUNE 30, 2015

Revenue

Total revenues were approximately \$4,000 for each of the years ended June 30, 2016 and 2015, respectively. The Company recognized revenue from nutrient credit sales for the years ended June 30, 2016 and 2015.

General and Administrative

Total general and administrative expenses were \$1,816,000 and \$2,375,000 for the years ended June 30, 2016 and 2015, respectively.

General and administrative expenses, excluding stock-based compensation charges of \$178,000 and \$972,000, were \$1,638,000 and \$1,403,000 for the years ended June 30, 2016 and 2015, respectively, representing a \$235,000 increase. Salaries and related payroll tax expenses increased to \$290,000 for the year ended June 30, 2016 from \$146,000 for the year ended June 30, 2015, primarily due to the fact that during the year ended June 30, 2015 there was a reversal of \$226,000 of previously recorded termination benefits, deferred compensation and payroll taxes due to the Company's settlement with a former employee. Consulting costs were \$710,000 and \$737,000 for the years ended June 30, 2016 and 2015, respectively, representing a \$27,000 decrease primarily due to a decrease in the costs of services provided by Schafer during the year ended June 30, 2016. Investor relation costs increased from \$91,000 for the year ended June 30, 2015 to \$235,000 for the year ended June 30, 2016 due to the Company's presence at multiple investor conferences and the hiring of an investor relations development firm during the year ended June 30, 2016.

General and administrative stock-based employee compensation for the years ended June 30, 2016 and 2015 consists of the following:

Year
ended
June 30,
2016

Year
ended
June 30,

2015

General and
administrative:

Fair value of
stock options
expensed under
ASC 718

\$ 66,000

\$ 379,000

Fair value of
stock bonus
expensed

69,000

-

Change in fair
value from
modification of
option and
warrant terms

43,000

593,000

Total

\$ 178,000

\$ 972,000

Stock-based compensation charges were \$178,000 and \$972,000 for the years ended June 30, 2016 and 2015, respectively. Compensation expense relating to stock options was \$66,000 and \$379,000 during the years ended June 30, 2016 and 2015, respectively. The Company granted a total of 100,000 and 957,500 options during the years ended June 30, 2016 and 2015, respectively. Compensation expense relating to stock bonus expensed for the year ended June 30, 2016 related to Mark Smith's employment agreement extension for which he was granted 75,000 shares of fully vested stock which was issued in January 2016. Compensation expense relating to the change in fair value from the modification of option terms was \$43,000 and \$369,000 for the years ended June 30, 2016 and 2015, respectively, as the Company granted extensions of option expiration dates and exercise prices to various employees and consultants during both of the years ended June 30, 2016 and 2015. Compensation expense relating to the change in fair value from the modification of warrant terms was nil and \$224,000 for the years ended June 30, 2016 and 2015, respectively. During the year ended June 30, 2015 the Company granted extensions to various warrants that expired in December 2014 to March 31, 2015 and then extended various warrants scheduled to expire prior to June 30, 2015 to June 30, 2015. The Company also granted modification of warrant expiration dates and exercise prices in conjunction with extension agreements with Bassani, Smith and Schafer effective January 1, 2015.

Depreciation

Total depreciation expense was \$294,000 and \$624,000 for the years ended June 30, 2016 and 2015, respectively. Depreciation expense is lower for the year ended June 30, 2016 due to the fiscal year 2015 \$1,750,000 impairment of the Kreider 1 assets which reduced the depreciation base.

Impairment loss on property and equipment

Impairment loss on property and equipment was \$1,685,000 and \$1,750,000 for the years ended June 30, 2016 and 2015, respectively. Management reviewed property and equipment for impairment as of June 30, 2016 and determined that the carrying amount of property and equipment related to the Kreider 1 project exceeded its estimated future undiscounted cash flows based on certain assumptions regarding timing, level and probability of revenues from sales of nutrient reduction credits and potentially needed capital expenditures and it was also determined that the salvage value of the system components will be offset by contractual

decommissioning obligations. Kreider 1 was measured at estimated fair value on a non-recurring basis using level 3 inputs, which resulted in an impairment of \$1,685,000 of the property and equipment for the year ended June 30, 2016. As of June 30, 2016, the net book value of Kreider 1 was zero. The Company also recorded an impairment of \$1,750,000 for the year ended June 30, 2015.

Research and Development

Total research and development expenses were \$349,000 and \$520,000 for the years ended June 30, 2016 and 2015, respectively.

Research and development expenses, excluding stock-based compensation expenses of \$33,000 and \$123,000, were \$316,000 and \$397,000 for the years ended June 30, 2016 and 2015, respectively. The expenses for both the years ended June 30, 2016 and 2015, are due to consulting costs and expenses related to the pilot program testing to enhance the Company's technology.

Research and development stock-based employee compensation for the years ended June 30, 2016 and 2015 consists of the following:

Year ended

June 30, 2016

Year ended

June 30, 2015

Research and
development:

Fair value of
stock options
expensed under
ASC 718

\$ 33,000

\$ 123,000

Total

\$ 33,000

\$ 123,000

Stock-based compensation expenses were \$33,000 and \$123,000 for the years ended June 30, 2016 and 2015, respectively. The expenses resulted from the granting of options to an employee performing research and development during the years ended June 30, 2016 and 2015. And the decrease is due to there being less options subject to vesting during the year ended June 30, 2016.

Loss from Operations

As a result of the factors described above, the loss from operations was \$4,139,000 and \$5,266,000 for the years ended June 30, 2016 and 2015, respectively.

Other Expense

Other expense was \$383,000 and \$376,000 for the years ended June 30, 2016 and 2015, respectively. Interest expense increased slightly due to higher interest bearing deferred compensation and convertible notes payable affiliates balances as of June 30, 2016 compared to June 30, 2015. Interest expense related to the Pennvest loan was \$197,000 for each of the years ended June 30, 2016 and 2015.

Net Loss Attributable to the Noncontrolling Interest

The net loss attributable to the noncontrolling interest was \$4,000 and \$11,000 for the years ended June 30, 2016 and 2015, respectively.

Net Loss Attributable to Bion s Common Stockholders

As a result of the factors described above, the net loss attributable to Bion s stockholders was \$4,518,000 and \$5,640,000 for the years ended June 30, 2016 and 2015, respectively, and the net loss per basic and diluted common share was \$0.20 and \$0.27, respectively. For the year ended June 30, 2015, the Company recorded \$10,000 as an inducement to certain warrant holders to convert their warrants at a reduced conversion rate of \$1.05.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated financial statements for the year ended June 30, 2016 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Report of our Independent Registered Public Accounting Firm on the Company's consolidated financial statements as of and for the year ended June 30, 2016 includes a "going concern" explanatory paragraph which means that the auditors stated that conditions exist that raise substantial doubt about the Company's ability to continue as a going concern.

Operating Activities

As of June 30, 2016, the Company had cash of approximately \$170,000. During the year ended June 30, 2016, net cash used in operating activities was \$900,000, primarily consisting of cash operating expenses related to salaries and benefits, and other general and administrative costs such as insurance and legal and accounting expenses. **As previously noted, the Company is currently not generating significant revenue and accordingly has not generated cash flows from operations. The Company does not anticipate generating sufficient revenues to offset operating and capital costs for a minimum of two to five years. While there are no assurances that the Company will be successful in**

its efforts to develop and construct its Projects and market its Systems, it is certain that the Company will require substantial funding from external sources. Given the unsettled state of the current credit and capital markets for companies such as Bion, there is no assurance the Company will be able to raise the funds it needs on reasonable terms.

Financing Activities

During the year ended June 30, 2016, the Company received cash proceeds of \$315,000 from the sale of 363,698 units which consists of one share of the Company's restricted common stock and one warrant to purchase one half of a share of the Company's restricted common stock for \$1.10 per share until June 30, 2017. The Company paid cash commissions related to the sale of units of \$24,000. The Company also received cash proceeds of \$388,000 due to the exercise of 550,339 warrants pursuant to various subscription agreements with exercise prices ranging from \$0.75 to \$1.05 per share. During the year ended June 30, 2016, the Company received cash proceeds of \$45,000 related to a promissory note receivable received as consideration for the exercise of certain warrants and the Company's received \$13,000 due to the receipt of a subscription receivable.

As of June 30, 2016 the Company has debt obligations consisting of: a) deferred compensation of \$1,437,000, b) convertible notes payable affiliates of \$3,281,000, and, c) a loan payable and accrued interest of \$8,564,000, (owed by PA1).

Plan of Operations and Outlook

As of June 30, 2016, the Company had cash of approximately \$170,000.

The Company continues to explore sources of additional financing to satisfy its current operating requirements as it is not currently generating any significant revenues. During fiscal years 2014 and 2015 and during the current fiscal year, the Company experienced greater difficulty in raising equity and debt funding than in the prior years. During the years ended June 30, 2014 and 2015, and during the current fiscal year, the Company had the greatest difficulty raising funds to date. As a result, the

Company faced, and continues to face, significant cash flow management challenges due to material working capital constraints. These difficulties, challenges and constraints have continued during fiscal year 2016 and in the current period and the Company anticipates that they may continue for the next twelve (12) months or longer. To partially mitigate these working capital constraints, the Company's core senior management and some key employees and consultants have been deferring all or part of their cash compensation and/or are accepting compensation in the form of securities of the Company (Notes 6 and 8 to Financial Statements) and members of the Company's senior management have made loans to the Company which have been converted into convertible promissory notes. As of June 30, 2016, such deferrals totaled approximately \$4,717,000 (including accrued interest and deferred compensation converted into promissory notes but excluding conversions of deferred compensation into the Company's common stock by officers, employees and consultants totaling \$286,000). **The extended constraints on available resources have had, and continue to have, negative effects on the pace and scope of the Company's effort to develop its business.** The Company made reductions in its personnel during the year ended June 30, 2014. The Company has had to delay payments of trade obligations and economize in many ways that have potentially negative consequences. If the Company does not have greater success in its efforts to raise needed funds during the current year (and subsequent periods), we will need to consider deeper cuts (including additional personnel cuts) and curtailments of operations (including possibly Kreider 1 operations). The Company will need to obtain additional capital to fund its operations and technology development, to satisfy existing creditors, to develop Projects (including Integrated Projects) and CAFO Retrofit waste remediation systems (including the Kreider 2 facility) and to continue to operate the Kreider 1 facility (subject to agreements being reached with Pennvest as discussed above). The Company anticipates that it will seek to raise from \$2,500,000 to \$50,000,000 or more (debt and equity) during the next twelve months. **However, as discussed above, there is no guarantee that we will be able to raise sufficient funds or further capital for the operations planned in the near future.**

The Company is not currently generating any significant revenues. Further, the Company's anticipated revenues, if any, from existing projects and proposed projects will not be sufficient to meet the Company's anticipated operational and capital expenditure needs for many years. During the year ended June 30, 2016 the Company raised proceeds of approximately \$315,000 through the sale of its securities and an additional \$433,000 through the exercise of warrants (Note 9 to Financial Statements) and anticipates raising additional funds from such sales and transactions. **However, there is no guarantee that we will be able to raise sufficient funds or further capital for the operations planned in the near future.**

Because the Company is not currently generating significant revenues, the Company will need to obtain additional capital to fund its operations and technology development, to satisfy existing creditors, to develop Projects and to sustain operations at the KF 1 facility.

The first commercial activity in the Retrofit segment is represented by our agreement with Kreider Farms (KF), pursuant to which the Kreider 1 system to treat KF's dairy waste streams to reduce nutrient releases to the environment while generating marketable nutrient credits and renewable energy was designed, constructed and entered full-scale operation during 2011. On January 26, 2009 the Board of the Pennsylvania Infrastructure Investment Authority (Pennvest) approved a \$7.75 million loan to Bion PA 1, LLC (PA1), a wholly-owned subsidiary of the Company, for the initial Kreider Farms project (Kreider 1 System). After substantial unanticipated delays, on August 12, 2010 PA1 received a permit for construction of the Kreider 1 system. Construction activities commenced during November 2010. The closing/settlement of the Pennvest Loan took place on November 3, 2010. PA1 finished the construction of the Kreider 1 System and entered a period of system operational shakedown during May 2011. The Kreider 1 System reached full, stabilized operation by the end of the 2012 fiscal year. During 2011 the PADEP re-certified the nutrient credits for this project. The PADEP issued final permits for the Kreider 1 System (including the credit verification plan) on August 1, 2012 on which date the Company deemed that the Kreider System was placed in service . As a result, PA1 commenced generating nutrient reduction credits for potential sale while continuing to utilize the Kreider 1 system to test improvements and add-ons.

However, to date liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth, which limited liquidity/depth has negatively impacted Bion s business plans and has resulted in challenges to monetizing the nutrient reductions created by PA1 s existing Kreider 1 project and Bion s other proposed projects. These difficulties have prevented PA1 from generating any material revenues from the Kreider 1 project to date and raise significant questions as to when, if ever, PA1 will be able to generate such revenues from the Kreider 1 system. PA1 has had sporadic discussions/negotiations with Pennvest related to forbearance and/or re-structuring its obligations pursuant to the Pennvest Loan for more than three years. In the context of such discussions/negotiations, PA1 elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, the Company has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of June 30, 2016. Due to the failure of the PA nutrient reduction credit market to develop, the Company determined that the carrying amount of the property and equipment related to the Kreider 1 project exceeded its estimated future undiscounted cash flows based on certain assumptions regarding timing, level and probability of revenues from sales of nutrient reduction credits and, therefore, PA1 and the Company recorded impairments related to the value of the Kreider 1 assets of \$1,750,000 and \$2,000,000 at June 30, 2015 and June 30, 2014, respectively. During the 2016 fiscal year, effective June 30, 2016, PA1 and the Company recorded an impairment of \$1,684,562 to the value of the Kreider 1 assets which reduced the value on the Company s books to \$0. This impairment reflects management s judgment that the salvage value of the Kreider 1 assets roughly equals PA1 s contractual obligations related to the Kreider 1 system, including expenses related to decommissioning of the

Kreider 1 system, costs associated with needed capital upgrade expenses, and re-certification/ permitting amendments. See *Impairment loss on property and equipment* above.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and accelerated the Pennvest Loan and demanded that PA1 pay \$8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA1 did not make the payment and does not have the resources to make the payments demanded by Pennvest. PA1 has commenced discussions and negotiations with Pennvest concerning this matter but Pennvest has rejected PA1's proposal made during the fall of 2014. Neither party has any formal proposal on the table as of the date of this report, and only sporadic communication continues regarding the matters involved. It is not possible at this date to predict the outcome of such negotiations/discussions, but the Company believes that a loan modification agreement may be reached in the future when a more robust market for nutrient reductions develops in PA, of which there is no assurance. PA1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

The economics (potential revenues, profitability and continued operation) of the Kreider 1 System are based almost entirely on the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up. See below for further discussion.

During August 2012, the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 system met the technology guaranty standards which were incorporated in the Pennvest financing documents and, as a result, the Pennvest Loan is now solely an obligation of PA1.

The Company is currently operating the Kreider 1 System in a limited manner pending development of a more robust market for its nutrient reductions.

As indicated above, the Company anticipates that it will seek to raise from \$2,500,000 to \$50,000,000 or more (from debt, equity, joint venture, strategic partnering, etc.) during the next twelve months, some of which may be in the context of joint ventures for the development of one or more large scale projects. **We reiterate that there is no assurance, especially in the extremely unsettled capital markets that presently exist for companies such as Bion, that the Company will be able to obtain the funds that it needs to stay in business, finance its Projects and other activities, continue its technology development and/or to successfully develop its business.**

There is extremely limited likelihood that funds required during the next twelve months or in the periods immediately thereafter will be generated from operations and there is no assurance that those funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital resulting from the inability to generate cash flow from operations and/or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. Further, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have a significantly dilutive effect on the Company's existing shareholders. All of these factors have been exacerbated by the extremely limited and unsettled credit and capital markets presently existing for companies such as Bion.

Currently, Bion is focused on using applications of its patented and proprietary waste management technologies and technology platform to pursue three main business opportunities: 1) installation of Bion systems (some of which may generate verified nutrient credits and revenues from the production of renewable energy and byproducts) to retrofit and environmentally remediate existing CAFOs (Retrofits) in selected markets where: a) government policy supports such efforts (such as the Chesapeake Bay watershed, Great Lakes Basin states, and/or other states and watersheds facing EPA total maximum daily load (TMDL) issues, and/or b) where CAFOs need our technology to obtain permits to expand or develop without negative environmental consequences; 2) development of new state-of-the-art large scale waste treatment facilities in strategic locations (Projects) (some of these may be Integrated Projects as described below) with multiple revenue streams, and 3) licensing and/or joint venturing of Bion's technology and applications (primarily) outside North America. The opportunities described at 1) and 2) above each require substantial political and regulatory (federal, state and local) efforts on the part of the Company and a substantial part of Bion's efforts are focused on such political and regulatory matters. Bion is currently pursuing the international opportunities primarily through the use of consultants with existing relationships in target. While the Company has commenced activities related to marketing and potential use of its technology in relation to expansion and/or development of CAFOs in the Northeast and Midwest (and elsewhere), we have met with extremely limited success to date. Bion considers these to be a large potential markets for the Company's growth over the next 36 months (and thereafter). Assuming that the Company can be successful in raising necessary funding and the development of a more robust market for nutrient reductions in Pennsylvania (and elsewhere), neither of which are assured at this date, the Company believes it will be able to succeed at such activities based on the operating results of its technologies and systems.

Additionally, the Kreider agreements provide for Bion to develop a waste treatment/renewable energy production facility to treat the waste from Kreider's

approximately 5+ million chickens (planned to expand to approximately 9 million)(and potentially other poultry operations and/or other waste streams)('Kreider Renewable Energy Facility' or Kreider 2 Project). On May 5, 2016, the Company executed a stand-alone joint venture agreement with Kreider Farms covering all matters related to development and operation of a system to treat the waste streams from Kreider s poultry facilities in Bion PA2 LLC (PA2). The Company continues its development work related to the details of the Kreider 2 Project. During May 2011 the PADEP certified Kreider 2 Project for 559,457 nutrient credits under the old EPA s Chesapeake Bay model. The Company anticipates that the Kreider 2 Project will be re-certified for between 1.5-2 million nutrient reduction credits (for treatment of the waste stream from Kreider s poultry) pursuant to the Company s pending reapplication (or subsequent amended application) during 2017 pursuant to the amended EPA Chesapeake Bay model and agreements between the EPA and PA. Note that this Project may be expanded in the future to treat wastes from other local and regional CAFOs (poultry and/or dairy) and/or Kreider poultry expansion (some of which may not qualify for nutrient reduction credits). **The review process to clarify certain issues related to credit calculation and verification commenced during 2014 but has been largely placed on hold while certain matters are resolved between the EPA and PA and pending development of a robust market for nutrient reductions in PA. The Company anticipates it will submit an amended application once these matters are clear. Design and engineering work for this facility, which will probably be the first to utilize Bion s 3G Tech, have not commenced, and the Company does not yet have financing in place for the Kreider 2 Project. This opportunity is being pursued through PA2. If there are positive developments related to the market for nutrient reductions in PA, of which there is no assurance, the Company intends to pursue development, design and construction of the Kreider 2 Project with a goal of achieving operational status during the 2017 calendar year, and hopes to enter into agreements related to sales of the nutrient reduction credits for future delivery (under long term contracts) during 2017 subject to verification by the PADEP based on operating data from the Kreider 2 Project. The economics (potential revenues and profitability) of the Kreider 2 Project, despite its use of Bion s 3G Tech for increased recovery of marketable by-products, are based in material part the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up. However, liquidity in the PA nutrient credit market has been slow to develop significant breadth and depth, which lack of liquidity has negatively impacted Bion s business plans and has resulted in challenges to monetizing the nutrient reduction credits generated by PA1 s existing Kreider 1 project and will most likely delay PA2 s Kreider 2 Project and other proposed projects in PA.**

Note that while Bion believes that the Kreider 1 System, the Kreider 2 Project and/or subsequent Bion Projects will eventually generate revenue from the sale of: a) nutrient reductions (credits or in other form), b) renewable energy (and related credits), c) sales of fertilizer products, and/or d) potentially, in time, credits for the reduction of greenhouse gas emissions. We believe that the potential market is very large, but it is

not possible to predict the exact timing and/or magnitude of these potential markets at this time.

The Company anticipates that the Kreider 2 poultry waste treatment facility in PA will be its initial Project. Bion anticipates that it will select a site for the Kreider 2 Project and/or its initial Integrated Project (and possibly additional Projects) during calendar year 2017. **Bion hopes to commence development of its initial Project by optioning land and beginning the permitting process during calendar year 2017, but delays are possible. It is not possible at this time to firmly predict where the initial Project will be developed or the order in which Projects will be developed. All potential Projects are in very early pre-development stages and may never progress to actual development or may be developed after other Projects not yet under active consideration.**

Bion also hopes to be able to move forward on additional Projects through 2017-19 to create a pipeline of Projects. Management has a 5-year development target (through calendar year 2023) of approximately 10 or more Projects. Management hopes to have identified and begun development work related to 3-5 Projects over the next 2 years. At the end of the 5-year period, Bion projects that 3-8 of these Projects will be in full operation in 3-6 states (and possibly one or more foreign countries), and the balance would be in various stages ranging from partial operation to early development stage. It is possible that one or more Projects will be developed in joint ventures specifically targeted to meet the growing animal protein demand outside of the United States (including without limitation Asia, Europe and/or the Middle East). **No Projects (including Integrated Projects) has been developed to date.**

CONTRACTUAL OBLIGATIONS

We have the following material contractual obligations (in addition to employment and consulting agreements with management and employees):

During 2008 the Company commenced actively pursuing the opportunity presented by environmental retrofit and remediation of the waste streams of existing CAFOs which effort has met with very limited success to date. The first commercial activity in this area is represented by our agreement with Kreider Farms (KF), pursuant to which the Kreider 1 system to treat KF's dairy waste streams to reduce nutrient releases to the environment while generating marketable nutrient credits and renewable energy was designed, constructed and entered full-scale operation during 2011. On January 26, 2009 the Board of the Pennsylvania Infrastructure Investment Authority (Pennvest) approved a \$7.75 million loan to Bion PA 1, LLC (PA1), a wholly-owned subsidiary of the Company, for the initial Kreider Farms project (Kreider 1 System). After substantial unanticipated delays, on August 12, 2010 PA1 received a permit for construction of the Kreider 1 system. Construction

activities commenced during November 2010. The closing/settlement of the Pennvest Loan took place on November 3, 2010. PA1 finished the construction of the Kreider 1 System and entered a period of system operational shakedown during May 2011. The Kreider 1 System reached full, stabilized operation by the end of the 2012 fiscal year. During 2011 the PADEP re-certified the nutrient credits for this project. The PADEP issued final permits for the Kreider 1 System (including the credit verification plan) on August 1, 2012 on which date the Company deemed that the Kreider System was placed in service. As a result, PA1 commenced generating nutrient reduction credits for potential sale while continuing to utilize the Kreider 1 system to test improvements and add-ons.

However, to date liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth, which limited liquidity/depth has negatively impacted Bion's business plans and has resulted in challenges to monetizing the nutrient reductions created by PA1's existing Kreider 1 project and Bion's other proposed projects. These difficulties have prevented PA1 from generating any material revenues from the Kreider 1 project to date and raise significant questions as to when, if ever, PA1 will be able to generate such revenues from the Kreider 1 system. PA1 has had sporadic discussions/negotiations with Pennvest related to forbearance and/or re-structuring its obligations pursuant to the Pennvest Loan for more than three years. In the context of such discussions/negotiations, PA1 elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, PA1 has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of June 30, 2016. Due to the failure of the PA nutrient reduction credit market to develop, the Company determined that the carrying amount of the property and equipment related to the Kreider 1 project exceeded its estimated future undiscounted cash flows based on certain assumptions regarding timing, level and probability of revenues from sales of nutrient reduction credits and, therefore, PA1 and the Company recorded impairments related to the value of the Kreider 1 assets of \$1,750,000 and \$2,000,000 at June 30, 2015 and June 30, 2014, respectively. During the 2016 fiscal year, effective June 30, 2016, PA1 and the Company recorded an impairment of \$1,684,562 to the value of the Kreider 1 assets which reduced the value on the Company's books to \$0. This impairment reflects management's judgment that the salvage value of the Kreider 1 assets roughly equals PA1's contractual obligations related to the Kreider 1 system, including expenses related to decommissioning of the Kreider 1 system, costs associated with needed capital upgrade expenses, and re-certification/permitting amendments. See *Impairment loss on property and equipment* above.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and accelerated the Pennvest Loan and demanded that PA1 pay \$8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA1 did not make

the payment and does not have the resources to make the payments demanded by Pennvest. PA1 has commenced discussions and negotiations with Pennvest concerning this matter but Pennvest has rejected PA1's proposal made during the fall of 2014. Neither party has any formal proposal on the table as of the date of this report, and only sporadic communication continues regarding the matters involved. It is not possible at this date to predict the outcome of such negotiations/discussions, but the Company believes that a loan modification agreement may be reached in the future when a more robust market for nutrient reductions develops in PA, of which there is no assurance. PA1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

The economics (potential revenues, profitability and continued operation) of the Kreider 1 System are based almost entirely on the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up. See below for further discussion.

During August 2012, the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 system met the technology guaranty standards which were incorporated in the Pennvest financing documents and, as a result, the Pennvest Loan is now solely an obligation of PA1.

The Company is currently operating the Kreider 1 System in a limited manner pending development of a more robust market for its nutrient reductions.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements (as that term is defined in Item 303 of Regulation SK) that are reasonably likely to have a current or future material effect on our financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

N/A

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements are set forth on pages F-1 through F-26 hereto.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

As of June 30, 2016, under the supervision and with the participation of the Company's President and Principal Financial Officer (the same person), management has evaluated the effectiveness of the design and operations of the Company's disclosure controls and procedures. Based on that evaluation, the President and Principal Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2016 as a result of the material weakness in internal control over financial reporting discussed below.

Changes in Internal Control over Financial Reporting

There were no changes in internal control over financial reporting that occurred during the last fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rule 13a-15(f). Our Chief Executive Officer and Principal Financial Officer (the same person) conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework") and the related guidance provided in Internal Control Over Financial Reporting Guidance for Smaller Public Companies, also issued by the Committee of Sponsoring Organizations.

Based on this evaluation, management has concluded that our internal control over financial reporting was not effective as of June 30, 2016. Our President and Principal Financial Officer concluded we have a material weakness due to lack of segregation of duties. Our size has prevented us from being able to employ sufficient resources to enable us to have an adequate level of supervision and segregation of duties within our internal control system. There is one person involved in the processing of the Company's accounting and banking transactions and a single person with overall supervision and review of the cash disbursements and receipts and the overall accounting process. Therefore, while there are some compensating controls in place, it is difficult to ensure effective segregation of accounting duties. While we strive to segregate duties as much as practicable, there is an insufficient volume of transactions to justify additional full time staff. As a result of this material weakness, we have implemented remediation procedures whereby in May 2006 we engaged an outside accounting and consulting firm with SEC and US GAAP experience to assist us with the preparation of our financial statements, evaluation of complex accounting issues and the implementation of systems to improve controls and review procedures over all financial statement and account balances. We believe that this outside consultant's review improved our disclosure controls and procedures. If this review is effective throughout a period of time, we believe it will help remediate the segregation of duties material weakness. However, we may not be able to fully remediate the material weakness unless we hire more staff. We will continue to monitor and assess the costs and benefits of additional staffing.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report on internal control in this annual report.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Our directors, executive officers and significant employees/consultants, along with their respective ages and positions are as follows:

Name

Age

Position

Directors and Officers:

Mark A. Smith

66

Executive Chairman, President, General
Counsel, Chief Financial Officer and Director

Edward T. Schafer

70

Vice Chairman and Director

Jon Northrop

73

Secretary and Director

Dominic Bassani

70

Chief Executive Officer

Mark A. Smith (66) currently serves Bion Environmental Technologies, Inc. as Executive Chairman, President, General Counsel, Chief Financial Officer and a director and has continually served in senior positions since late March 2003. Since that time, he has also served as sole director, President and General Counsel of Bion's wholly-owned subsidiaries including Project Group and Services Group. Since mid-February 2003, Mr. Smith has served as sole director and President and General Counsel of Bion's majority-owned subsidiary, Centerpoint Corporation. Mr. Smith also serves as Manager of Bion PA1, LLC. Previously, from May 21, 1999 through January 31, 2002, Mr. Smith served as a director of

Bion. From July 23, 1999, when he became President of Bion, until mid-2001 when he ceased to be Chairman, Mr. Smith served in senior positions with Bion on a consulting basis. Additionally, Mr. Smith was the president of RSTS Corporation prior to its acquisition of Bion Technologies, Inc. in 1992. Mr. Smith received a Juris Doctor Degree from the University of Colorado School of Law, Boulder, Colorado (1980) and a BS from Amherst College, Amherst, Massachusetts (1971). Mr. Smith has engaged in the private practice of law in Colorado since 1980. In addition, Mr. Smith has been active in running private family companies, Stonehenge Corporation (until 1994) and LoTayLingKyrur, Inc. (1994-2002). Until returning to Bion during March 2003, Mr. Smith had been in retirement with focus on charitable work and spiritual retreat.

Edward T. Schafer (70) Edward Schafer previously served the Company's senior management team as Executive Vice Chairman and has been a member of the Company's Board of Directors since January 1, 2011. Mr. Schafer served as a consultant to Bion since July 2010. Mr. Schafer served as a director of Continental Resources (NYSE-CLR) 2011-2016. He also chairs the Board of Directors of Dynamic Food Ingredients and the Theodore Roosevelt Medora Foundation. In addition he has served on the Board of Governors of Amity Technology LLP since 2009 and the Board of Directors of AGCO-Amity JV since it was formed in 2011. Mr. Schafer served as a trustee of the Investors Real Estate Trust (NASDAQGS-IRET) from September 2009 to October 2011. He also served as a trustee of the IRET from September 2006 through December 2007, when he resigned from the IRET's Board to serve as Secretary of the U.S. Department of Agriculture under President George W. Bush. Mr. Schafer, a private investor, is a former Governor of North Dakota. He served as Chief Executive Officer of Extend America, a telecommunications company, from 2001 to 2006, and he has been a member of the Boards of RDO Equipment Co., a privately-owned agricultural and construction equipment company (August 2001 to July 2003) and the University of North Dakota Foundation (June 2005 to December 2007). He completed a six month term as Interim President of the University of North Dakota in 2016. Mr. Schafer brings the following experience, qualifications, attributes and skills to the Company: general business management, budgeting and strategic planning experience from his service as Chief Executive Officer of Extend America and extensive government, regulatory, strategic planning, budgeting administrative and public affairs experience from his service as Governor of North Dakota and Secretary of the US Department of Agriculture.

Jon Northrop (73) has served as our Secretary and a Director since March of 2003. Since September 2001 he has been self employed as a consultant with a practice focused on business buyer advocacy. Mr. Northrop is one of our founders and served as our Chief Executive Officer and a Director from our inception in September 1989 until August 2001. Before founding Bion Technologies, Inc., he served in a wide variety of managerial and executive positions. He was the Executive Director of Davis, Graham & Stubbs, one of

Denver's largest law firms, from 1981 to 1989. Prior to his law firm experience, Mr. Northrop worked at Samsonite Corporation's Luggage Division in Denver, Colorado, for over 12 years. His experience was in all aspects of manufacturing, systems design and implementation, and planning and finance, ending with three years as the Division's Vice President, Finance. Mr. Northrop has a bachelor's degree in Physics from Amherst College, Amherst, Massachusetts (1965), an MBA in Finance from the University of Chicago, Chicago, Illinois (1969), and spent several years conducting post graduate research in low energy particle physics at Case Institute of Technology, Cleveland.

Dominic Bassani (70) has served as Chief Executive Officer of Bion Environmental Technologies, Inc. since April 2011. Previously he was a full-time consultant to the Company and served as the General Manager of Bion's Projects Group subsidiary from April 2003 through September 2006. From September 15, 2008 he has served as Director-Special Projects and Strategic Planning of the Company and our Projects Group subsidiary. He has been an investor in and consultant to Bion since December 1999. He is an independent investor and since 1990 has owned and operated Brightcap, a management consulting company that provides management services to early stage technology companies. He was a founding investor in 1993 in Initial Acquisition Corp. that subsequently merged in 1995 with Hollis Eden Corp. (HEPH), a biotech company specializing in immune response drugs. From early 1998 until June 1999 he was a consultant to Internet Commerce Corp. (re-named EasyLink Services International Corporation) (ESIC), a leader in business-to-business transactions using the Internet. He is presently an investor in numerous private and public companies primarily in technology related businesses. From 1980 until 1986, Mr. Bassani focused primarily on providing management reorganization services to manufacturing companies and in particular to generic pharmaceutical manufacturers and their financial sponsors.

Family Relationships

There are currently no family relationships among our Directors and Executive Officers.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our officers and directors, and stockholders owning more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. The Company is not aware of any persons who failed to timely file reports under this section.

Involvement in Legal Proceedings

To the best of our knowledge, during the past five years, none of the following occurred with respect to our directors or executive officers:

(1)

any bankruptcy petition filed by or against any business of which one of them was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(2)

any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

(3)

being subject to any order, judgment or decree of any court of competent jurisdiction, permanently or temporarily inquiring, barring, suspending or otherwise limiting involvement in any type of business, securities or banking activities; and

(4)

being found by a court of competent jurisdiction, the SEC or the CFTC to have violated Federal or state securities or commodities laws.

Audit Committee

The Company has no audit committee and is not now required to have one, or an audit committee financial expert.

Code of Ethics

To date, the Company has not adopted a code of business conduct and ethics applicable to its officers, directors or accounting officer.

ITEM 11. EXECUTIVE COMPENSATION.

SUMMARY COMPENSATION TABLE

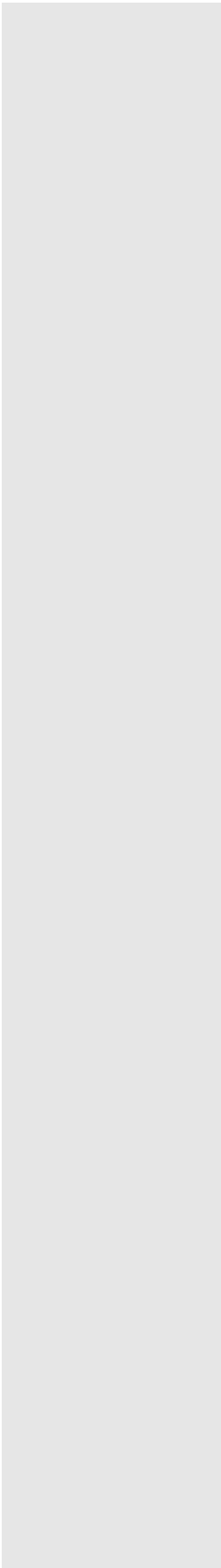
The following table sets forth the compensation paid to, or accrued for, each of our current and former executive officers during each of our last two fiscal years and the compensation paid to, or accrued for, each of our significant employees and consultants for the same period.

Summary Compensation

Name and
Principal Position

Fiscal

Year



Salary(1)

Bonus

Stock

Awards

Option

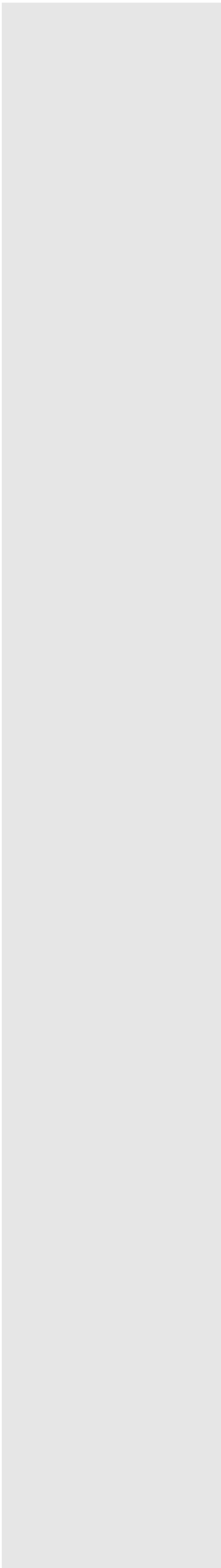
Awards(2)

Non-Equity

Incentive

Plan Com-
pensation

Non-

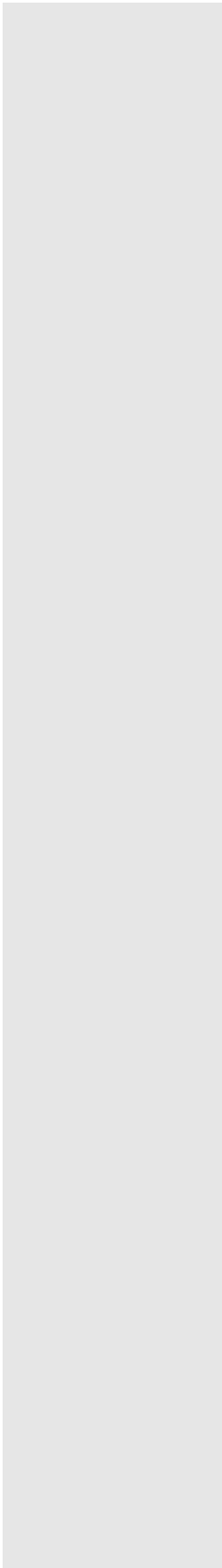


Qualified
Deferred
Compensa-
tion Earnings

Other
Compen-
sation (5)

Total

Mark A. Smith (3)



President and
Chief

Financial Officer
since

March 25, 2003,

and Director

2016

2015

\$222,000

\$192,000

\$ -

\$ -

\$69,000

\$ -

\$ 59,000

\$234,000

\$ -

\$ -

\$ -

\$ -

\$ -

\$92,321

\$350,000

\$518,321

Brightcap/Dominic
Bassani (4)

VP-Special
Projects &
Strategic

Planning and Chief
Executive

Officer

2016

2015

\$372,000

\$342,000

\$ -

\$ -

\$ -

\$ -

\$ -

\$391,500

\$ -

\$ -

\$ -

\$ -

\$ -

\$131,268

\$372,000

\$864,768

Edward Schafer
(6)

Executive Vice
Chairman and

Director

2016

2015

\$ 20,000

\$210,000

\$ -

\$ -

\$ -

\$ -

\$ -

\$ 80,000

\$ -

\$ -

\$ -

\$ -

\$ -

\$ -

\$ 20,000

\$290,000

(1)

Includes compensation paid by Bion Technologies, Inc. and our wholly owned subsidiaries.

(2)

Reflects the dollar amount expensed by the Company during the applicable fiscal year for financial statement reporting purposes pursuant to ASC 718.

(3)

Effective September 2014, Mr. Smith agreed to provide services to Bion and subsidiaries through April 15, 2015 at an annual salary of \$168,000. On February 10, 2015, Mr. Smith agreed to an extension to continue his employment through December 31, 2015 at an annual salary of \$216,000 effective January 1, 2015. In October 2015, Smith and the Company signed an extension agreement to continue his employment through June 30, 2016 at an annual salary of \$228,000. As part of the October 2015 extension agreement, Smith was granted 100,000 options which vested immediately and was granted 75,000 shares of common stock as an extension bonus.

(4)

In September 2014 the Company entered into an extension agreement with Brightcap for services provided to the Company by Dominic Bassani at an annual salary of \$312,000 for services provided through April 15, 2015. On February 10, 2015, Mr. Bassani agreed to an extension to continue his employment through December 31, 2017 at an annual salary of \$372,000 effective January 1, 2015.

(5)

Effective January 1, 2015, Mr. Bassani and Mr. Smith entered into extension agreements whereby their compensation would continue to be deferred and existing convertible notes related to deferred compensation would be replaced with new convertible notes with terms that i) materially reduce the interest by 50% (from 8% to 4%), ii) increases the conversion price by 11% (from \$0.45 to \$0.50), iii) sets the conversion price at a fixed price so there can be no further reductions, iv) reduces the number of warrants received by conversion by 75% (from 1 warrant per unit to 1/4 per unit) and v) extends the maturity date to December 31, 2017. In consideration for these agreements, Mr. Bassani and Mr. Smith were granted new options of 450,000 and 150,000, respectively, and all outstanding options and warrants owned by Mr. Bassani and Mr. Smith (and their donees) were extended and the exercise prices were reduced to \$1.50.

(6)

On February 10, 2015, the Company entered into an extension agreement with Edward Schafer, effective January 1, 2015, pursuant to which Mr. Schafer will continue to serve as Executive Vice Chairman and director of the Company through December 31, 2015 at an annual rate of \$180,000. Mr. Schafer was granted a deferred sum of \$120,000 for previously uncompensated services. Pursuant to the agreement the exercise period of outstanding options and warrants have been extended and certain option exercise prices were reduce \$1.50. In January 2016, Schafer agreed to extend his agreement through December 31, 2016. During June 2016, the Company and Schafer came to an agreement that due to other obligations, Schafer's involvement with the Company during the 2016 fiscal year was less than anticipated and his 2016 compensation was reduced by \$160,000. Future compensation will be determined periodically based on evaluation by the board of directors.

Employment Agreements:

Mark A. Smith (Smith) has held the positions of Director, President and General Counsel of Company and its subsidiaries under various agreements and terms since March 2003 (details regard earlier years and periods between 2003 and 2011 may be found in the Company s prior Forms 10-K and other SEC filings). During July 2011, the Company entered into an extension agreement pursuant to which Smith continued to hold his current positions in the Company through a date no later than December 31, 2012. Commencing January 1, 2012, Smith s monthly salary was \$20,000, which has been accrued and deferred. In addition, Smith has been/will be issued 90,000 shares of the Company s common stock in two tranches of 45,000 shares on each of January 15, 2013 and 2014, respectively. As part of the extension agreement, Mr. Smith was also granted 200,000 options, which vested immediately, to purchase common shares of the Company at a price of \$3.00 per share and which options expire on December 31, 2019. Effective July 15, 2012, the Company entered into an extension agreement pursuant to which Smith will continue to hold his current positions in the Company through a date no later than June 30, 2014. Effective September 2012, Smith s monthly salary became \$21,000 (which is currently being deferred). In addition, Smith will be issued 150,000 shares of the Company s common stock in two tranches of 75,000 shares on each of January 15, 2014 and 2015, which shares vested immediately. As part of the extension agreement, Smith was also granted a bonus of \$25,000 paid in warrants, which vested immediately, to purchase 250,000 shares of the Company s common stock at a price of \$2.10 per share and which warrants expire on December 31, 2018 and a contingent stock bonus of 100,000 shares payable on the date on which the Company s stock price first reaches \$10.00 per share (regardless of whether Smith is still providing services to the Company on such date). Mr. Smith has voluntarily reduced his monthly deferred salary accrual to \$14,000 due to the Company s financial situation. During September 2014, Smith agreed to continue his employment agreement through April 15, 2015 and also agreed to continue to defer his temporarily reduced salary of \$14,000 per month until such date. On February 10, 2015, the Company executed an Extension Agreement with Smith pursuant to which Smith extended his employment with the Company to December 31, 2015 (with the Company having an option to extend his employment an additional six months). As part of the Extension Agreement, the balance of Smith s existing convertible note payable (See Note 8 to Financial Statements) of \$854,316 as of December 31, 2014, adjusted for conversions subsequent to that date, was replaced with a new convertible note with an initial principal amount of \$760,519 with terms that i) materially reduce the interest rate by 50% (from 8% to 4%), ii) increases the conversion price by 11% (from \$0.45 to \$0.50), iii) sets the conversion price at a fixed price so there can be no further reductions, iv) reduces the number of warrants received on conversion by 75% (from 1 warrant per unit to 1/4 per unit) and v) extends the maturity date to December 31, 2017. Additionally, pursuant to the Extension Agreement, Smith: i) will continue to defer his cash compensation (\$18,000 per month) until the Board of Directors re-instates cash payments to all employees and consultants who are deferring their compensation, ii) cancelled 150,000 contingent stock bonuses previously granted to him by the Company, iii) has been granted 150,000 new options which vested immediately and iv) outstanding options and warrants owned by Smith (and his donees) have been extended and had the exercise prices reduced to \$1.50 (if above that price). Due to expiration of his most recent extension, Mr. Smith is currently serving the Company on a month-to month basis.

Dominic Bassani (Bassani) has served in senior management positions with the Company (as a full-time consultant) since 2001 (see prior Forms 10-K for earlier years and other filings with the SEC). Since March 31, 2005, the Company has had various agreements with Brightcap, Bassani's family consulting company, through which the services of Bassani were provided through 2011. On September 30, 2009 the Company entered into an extension agreement with Brightcap pursuant to which Bassani provided services to the Company through September 30, 2012 for \$312,000 annually (currently deferred). The Board appointed Bassani as the Company's CEO effective May 13, 2011. On July 15, 2011, Bassani, Brightcap and the Company agreed to an extension/amendment of the existing agreement with Brightcap which provides that Bassani serve as CEO through June 30, 2013 and would continue to provide full-time services to the Company in other capacities through June 30, 2014 at a salary of \$26,000 per month. In addition Bassani will be issued 300,000 shares of the Company's common stock issuable in three tranches of 100,000 shares on each of January 15, 2015, 2016 and 2017, respectively. Bassani was also granted 725,000 options, which vested immediately, to purchase shares of the Company's common stock at \$3.00 per share which options expire on December 31, 2019. Effective July 15, 2012, Bassani, Brightcap and the Company agreed to a further extension/amendment of the existing agreement with Brightcap which provides that Bassani will continue to provide the services of CEO through June 30, 2014. Bassani will continue to provide full-time services to the Company at a cash salary of \$26,000 per month (which is currently being deferred) and Bassani will be issued 300,000 shares of the Company's common stock issuable in two tranches of 150,000 shares on each of January 15, 2015 and 2016, respectively, which will be immediately vested. As part of the extension agreement, Bassani was also granted a bonus of \$5,000 paid in warrants, which vested immediately, to purchase 50,000 shares of the Company's common stock at a price of \$2.10 per share and which warrants expire on December 31, 2018. During September 2014, Bassani agreed to extend his employment agreement until April 15, 2015 and that previously issued and expensed share grants of 100,000 and 150,000 shares that were to be issued on January 15, 2015, would be deferred until January 15, 2016. On February 10, 2015, the Company executed an Extension Agreement with Bassani pursuant to which Bassani extended the term of his service to the Company to December 31, 2017, (with the Company having an option to extend the term an additional six months.) As part of the agreement, the Company's existing loan payable, deferred compensation and convertible note payable to Bassani (See Notes 4, 6 and 8 to Financial Statements), were restructured into two promissory notes as follows: a) The of sum of the cash loaned by Bassani to the Company of \$279,000 together with \$116,277 of unreimbursed expenses through December 31, 2014 were placed into a new promissory note with initial principal of \$395,277 which is due and payable on December 31, 2015 (See Note 5 to Financial Statements). In connection with these sums and the new promissory note, Bassani was issued warrants to purchase 592,916 shares of the Company's common stock at a price of \$1.00 until December 31, 2020; and b) the remaining balances of the Company's accrued obligations to Bassani (\$1,464,545) were replaced with a new convertible promissory note with terms that compared with the largest prior convertible note obligation to Bassani: i) materially reduce the interest rate by 50% (from 8% to 4%), ii) increase the conversion price by 11% (from \$0.45 to \$0.50), iii) sets the conversion price at a fixed price so there can be no further reductions, iv) reduces the number of warrants received on conversion by 75% (from 1 warrant per unit to 1/4 per unit) and v) extends the

maturity date to December 31, 2017 (See Note 8 to Financial Statements). Additionally, pursuant to the Extension Agreement, Bassani i) will continue to defer his cash compensation (\$31,000 per month) until the Board of Directors re-instates cash payments to all employees and consultants who are deferring their compensation, ii) cancelled 250,000 contingent stock bonuses previously granted to him by the Company, iii) has been granted 450,000 new options which vested immediately and iv) outstanding options and warrants owned by Bassani (and his donees) have been extended and had the exercise prices reduced to \$1.50(if above that price).

On May 5, 2013, the Board of Directors approved agreements with Bassani and Smith, with effective date of May 15, 2013, in which Bassani and Smith have agreed to continue to defer their respective cash compensation through April 30, 2014 (unless the Board of Directors elects to re-commence cash payment on an earlier date) and to extend the due dates of their respective deferred cash compensation until January 15, 2015. The Company has provided Bassani and Smith with convertible promissory notes which reflect all the terms of these agreements to which future accruals will be added as additional principal. As part of the agreements, Bassani and Smith have also forgiven any possible obligations that Bion may have owed each of them in relation to unused vacation time for periods (over 10 years) prior to June 30, 2012. In consideration of these agreements, Bassani and Smith: a) have been granted 50% execution/exercise bonuses to be effective upon future exercise of outstanding (or subsequently acquired) options and warrants owned by Bassani and Smith (and their respective donees) and in relation to contingent stock bonuses; b) their warrants and options, if due to expire prior to December 31, 2018, were extended to that date (with possible further extensions); and c) other modifications have been made.

Effective January 1, 2011, the Company entered into an employment agreement with Edward Schafer (Schafer) pursuant to which for a period of three years, Schafer will provide senior management services to the Company on an approximately 75% full time basis, initially as Executive Vice Chairman and as a director. Compensation for Schafer s services will initially be at an annual rate of \$250,000, which will consist of \$150,000 in cash compensation and \$100,000 payable in the Company s common stock. Commencing the month following the first calendar month-end after the Company has completed an equity financing in excess of \$3,000,000 (net of commissions and other offering expenses), Schafer s compensation shall be at an annual rate of \$225,000, all of which shall be payable in cash. Effective July 15, 2012, the Company entered into a deferral/employment/compensation agreement with Schafer pursuant to which Schafer provides senior management services to the Company on an approximately 75% full time basis, as Executive Vice Chairman and as a director. Basic compensation for Schafer s services remains unchanged and Schafer was issued 100,000 options to purchase shares of the Company s common stock at \$2.10 per share until December 31, 2018, which immediately vested and a contingent stock bonus of 25,000 shares payable on January 1 of the first year

after the Company's stock price first reaches \$10.00 per share (regardless of whether Schafer is still providing services to the Company on such date). Since May 15, 2012 Schafer has been deferring the cash portion of the compensation due him from the Company, in consideration of which he has been granted a 50% execution/exercise bonus to be effective upon future exercise of outstanding (or subsequently acquired) options and warrants owned by Bassani and Smith (and their respective donees) and in relation to contingent stock bonuses. Effective January 1, 2014, Mr. Schafer agreed to continue his services to the Company as Director and Executive Vice-Chairman without periodic compensation in light of the Company's financial situation. Mr. Schafer agreed not to receive any periodic compensation (cash or deferred) commencing January 1, 2014 and will be compensated with bonuses from time-to-time as determined to be appropriate by the Board of Directors. No such bonuses have been declared to date. It is anticipated that a new employment/compensation agreement with Mr. Schafer will be negotiated during the current fiscal year. On February 10, 2015, the Company entered into an agreement with Schafer pursuant to which Schafer will continue to provide services to the Company through December 31, 2015. As part of the agreement, unreimbursed expenses of \$15,956 due to Schafer at December 31, 2014 were replaced with a new promissory note with initial principal of \$15,956 which is due and payable on December 31, 2015 and Schafer was issued warrants to purchase 7,978 shares of the Company's common stock at a price of \$1.00 until December 31, 2020 (See Note 5 to Financial Statements). Schaefer's deferred compensation for 2014 (and prior years) in the amount of \$394,246 (including a sum of \$120,000 for calendar year 2014) was placed in a convertible promissory note (See Note 8 to Financial Statements). Additionally, pursuant to the agreement, i) the exercise period of outstanding options and warrants owned by Schafer have been extended, ii) certain of Schafer's outstanding options and warrants had the exercise prices reduced to \$1.50 (if above that price), and iii) 25,000 contingent stock bonuses previously granted to Schafer have been cancelled by the Company. Effective June 30, 2016, Schafer and the Company determined that due to other obligations Schafer's involvement with the Company during the 2016 fiscal year was less than anticipated and reduced his fiscal year 2016 compensation (all of which had been deferred) by \$160,000 and agreed that future compensation will be determined periodically based on evaluation by the board of directors.

Effective September 27, 2011, the Company entered into an employment agreement with George Bloom pursuant to which Mr. Bloom agreed to serve as Chief Engineering Officer of the Company through January 31, 2015 at an annual salary of \$150,000 until July 1, 2011, at which time the annual salary was to be increased to \$180,000, which increase was deferred and accrued by the Company. Mr. Bloom's employment with the Company was terminated effective November 30, 2013.

Other Agreements

As of September 1, 2016, the Company had outstanding Contingent Stock Bonuses of 117,500 shares, in aggregate, to its key employees and consultants, pursuant to which 50,000 shares, in aggregate, will be issued when the Company's common stock trades at or above \$5.00 per share, 40,000 shares, in aggregate, will be issued when Company's

common stock trades at or above \$10 per share and 27,500 shares, in aggregate will be issued when Company's common stock trades at or above \$20 per share.

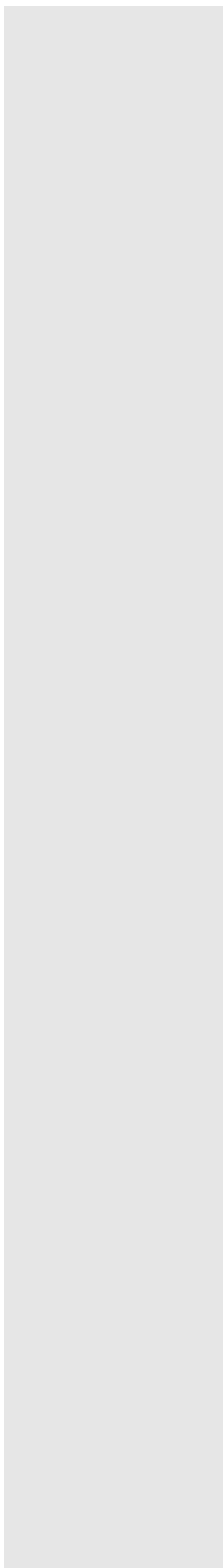
OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth the number of shares of common stock covered by outstanding stock option awards that are exercisable and unexercisable, and the number of shares of common stock covered by unvested restricted stock awards for each of our named executive officers as of June 30, 2016.

**Outstanding
Equity
Awards at
Fiscal
Year-End**

Option
Awards

Stock Awards



Equity

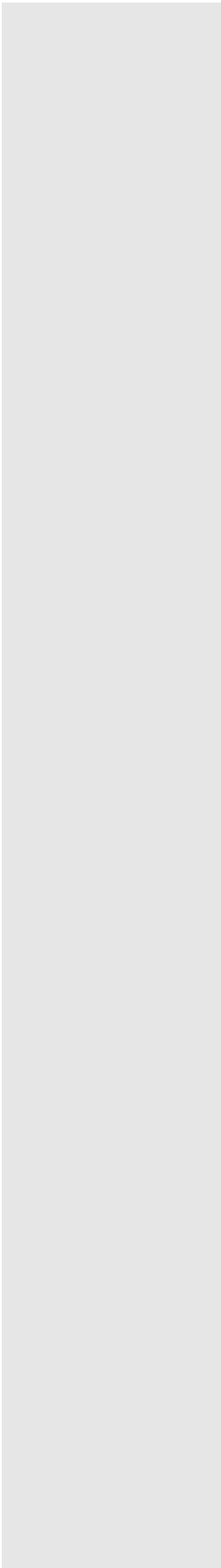
Equity

Incentive Plan

Equity

Incentive Plan

Awards:



Market

Incentive Plan

Awards:

Number of

Number of

Number of

Number of

Value of

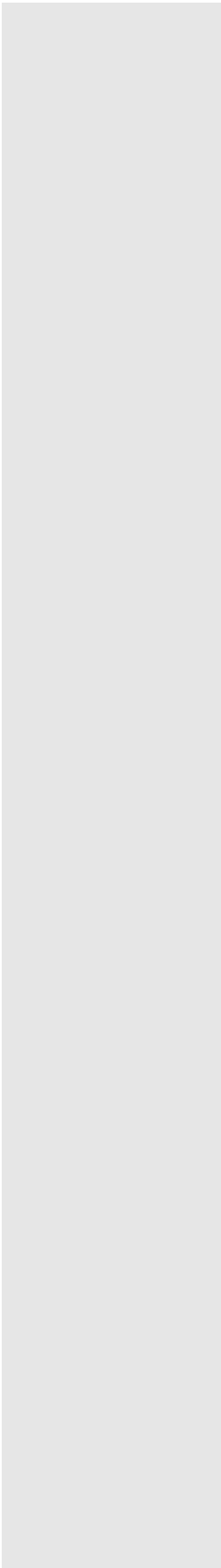
Awards:

Market or

Securities

Securities

Securities



Shares or

Shares or

Number of

Payout Value
of

Underlying

Underlying

Underlying

Units of

Units of

Unearned
Shares,

Unearned
Shares,

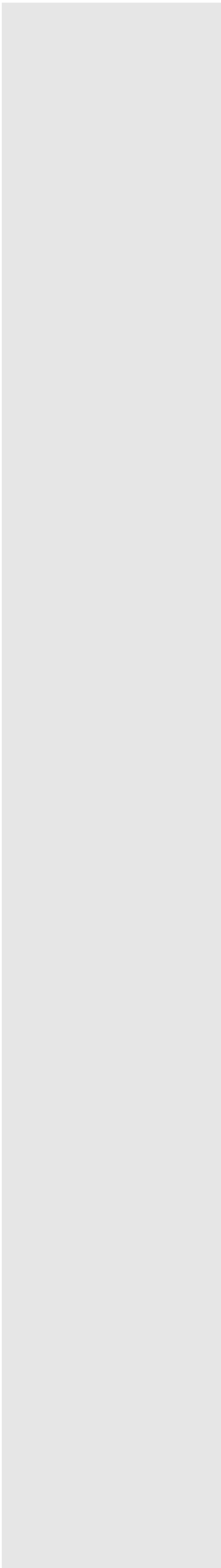
Unexercised

Unexercised

Unexercised

Option

Option



Stock That

Stock That

Units or Other

Units or Other

Options (#)

Options (#)

Unearned

Exercise

Expiration

Have Not

Have Not

Rights That
Have

Rights That
Have

Name

Exercisable

Unexercisable

Options (#)

Price (\$)

Date

Vested (#)

Vested

Not Vested

Not Vested

Mark A.
Smith (1)

25,000

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\$1.00

2020

--

--

--

--

Mark A.
Smith (1)

25,000

--

--

\$1.25

2020

--

--

--

--

Mark A.
Smith (1)

650,000

--

--

\$1.50

2020

--

--

--

--

Mark A.
Smith (1)

100,000

-

-

\$0.92

2020

Mark A.
Smith (1)

150,000

--

--

\$0.75

2020

--

--

--

--

Brightcap/

Dominic
Bassani (1)

725,000

--

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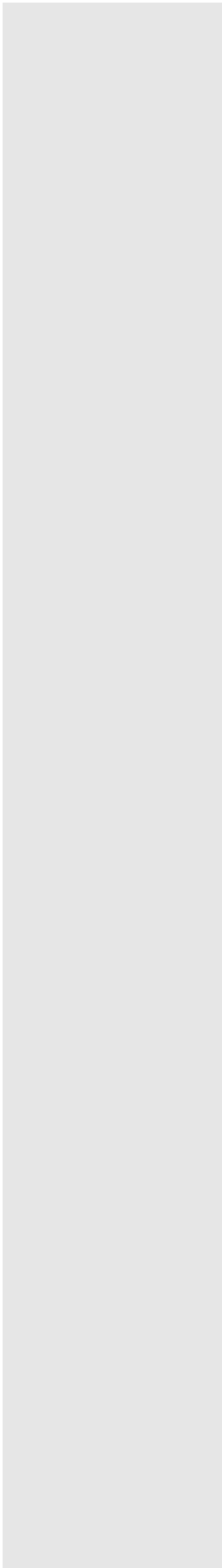
\$1.50

2020

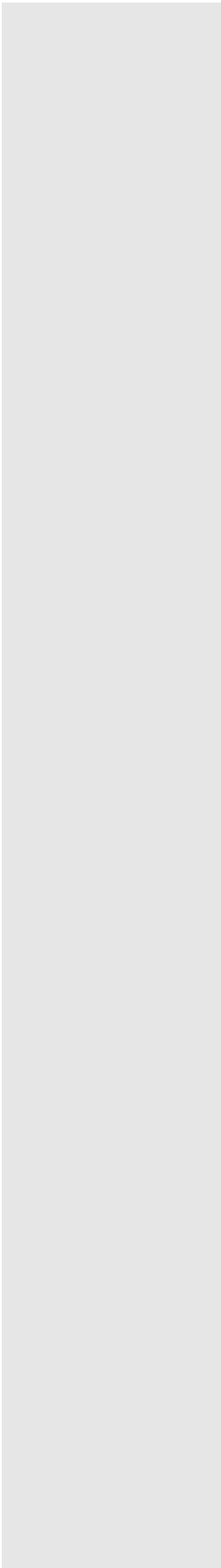
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--
Brightcap/
Dominic
Bassani (1)
450,000
--
--
\$0.75
2020
--
--
--
--



Edward
Schafer (1)

100,000

--

--

\$2.10

2020

--

--

--

--

Edward
Schafer (1)

300,000

--

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\$2.25

2020

--

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--

--

Edward
Schafer (1)

200,000

--

--

\$3.00

2020

--

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(1)

All options and contingent stock bonuses are subject to a 50% execution/exercise bonus upon notice of intent to exercise or issuance of contingent shares as applicable

Director Compensation

Members of the Board of Directors do not currently receive any cash compensation for their services as Directors, but are entitled to be reimbursed for their reasonable expenses in attending meetings of the Board. However, it is the Company's intention to begin to pay cash compensation to Board members at some future date.

53

DIRECTOR COMPENSATION

The following table sets forth certain information regarding the compensation paid to directors during the fiscal year ended June 30, 2016:

Name

Fees Earned

or Paid

in Cash
(\$)

Stock
Awards
(\$)

Option
Awards
(\$)⁽¹⁾

Non-equity
Incentive
Plan Com-
pensation
(\$)

Nonqualified
Deferred
Compensation
Earnings (\$)

All Other
Compen-
sation
(\$)

Total
(\$)

Jon Northrop
-
-
\$0
-
-
-
\$0

(1)

Reflects the dollar amount expensed by the Company during the applicable fiscal year for financial statement reporting purposes pursuant to ASC 718.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND
MANAGE-MENT AND RELATED STOCKHOLDER MATTERS**

At August 22, 2016, the Company had issued 23,636,969 shares of its common stock, of which 22,932,660, are outstanding (the balance of 704,309 shares are owned by Centerpoint, the Company's majority owned subsidiary).

The following table sets forth certain information regarding the beneficial ownership of our common stock as of August 22, 2016 by:

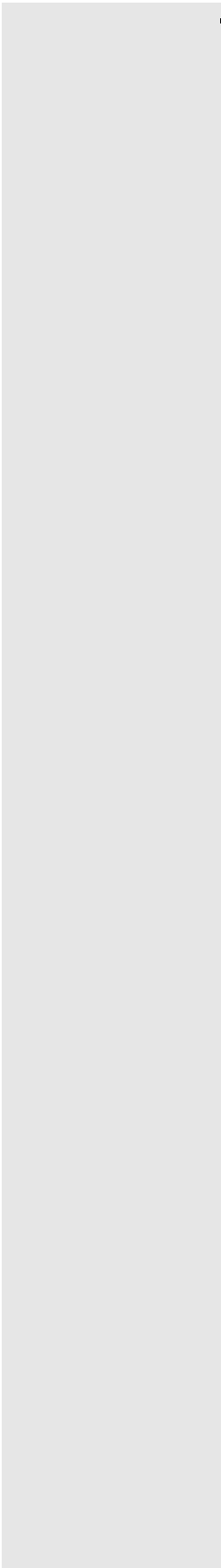
each person that is known by us to beneficially own more than 5% of our common stock;

each of our directors;

each of our executive officers and significant employees; and

all our executive officers, directors and significant employees as a group.

Under the rules of the Securities and Exchange Commission, beneficial ownership includes voting or investment power with respect to securities and includes the shares issuable under stock options, warrants and convertible securities that are exercisable/convertible within sixty (60) days of September 1, 2016. Those shares issuable under stock options, warrants and/or convertible securities are deemed outstanding for computing the percentage of each person holding options, warrants and/or convertible securities but are not deemed outstanding for computing the percentage of any other person. The percentage of beneficial ownership schedule is based upon 22,932,660 shares outstanding as of August 22, 2016. The address for those individuals for which an address is not otherwise provided is c/o Bion Environmental Technologies, Box 566/1774 Summitview, Crestone, Colorado 81131. To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting power and investment power with respect to all shares of common stock listed as owned by them.



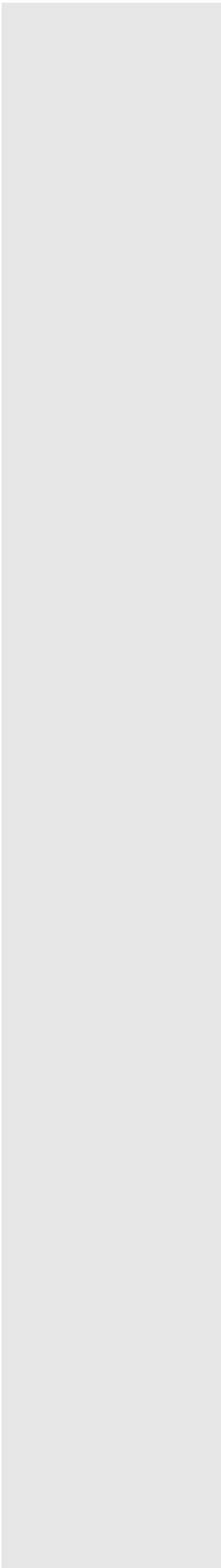
Shares of
Common
Stock
Beneficially
Owned

Name and
Address

Number

Percent of
Class
Outstanding

Entitled
To Vote



Centerpoint
Corporation⁽¹⁾

Box 566/1774
Summitview
Way

Crestone, CO
81131

704,309

3.0%

-

Dominic
Bassani⁽²⁾

64 Village
Hills Drive

Dix Hills, NY
11746

9,618,365

30.9%

31.6%

Anthony
Orphanos⁽³⁾

c/o Blacksmith
Advisors, LLC

1345 Avenue
of the
Americas, 27th
Floor

New York,
NY 10105

2,297,450

9.6%

9.9%

Danielle
Christine
Bassani⁽⁴⁾

c/o Dominic
Bassani

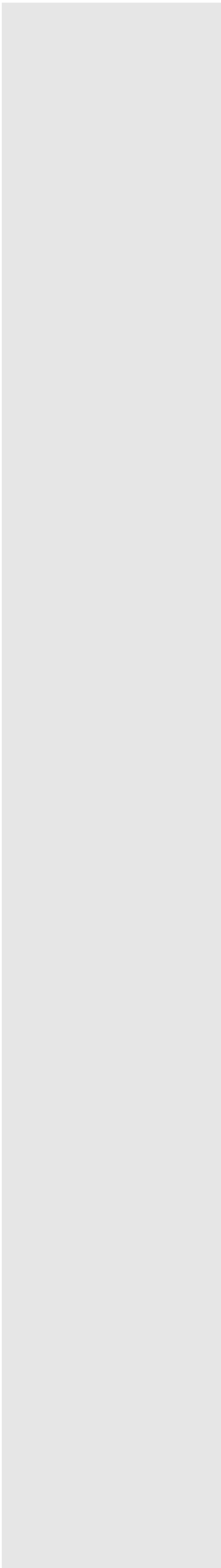
64 Village
Hills Drive

Dix Hills, NY
11746

2,160,935

8.5%

8.8%



Mark A.
Smith⁽⁵⁾

4,988,990

17.9%

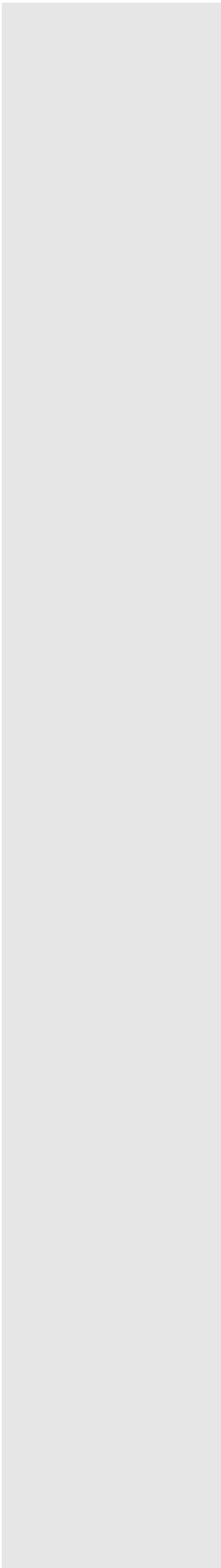
18.4%

Edward T.
Schafer⁽⁶⁾

1,964,771

7.7%

7.9%



Jon
Northrop⁽⁷⁾

312,289

1.3%

1.4%

All executive
officers and
directors

as a group (4
persons)

16,884,415

45.2%

46.1%

(1)

Centerpoint Corporation is currently majority owned by the Company. Under Colorado law, Centerpoint Corporation is not entitled to vote these shares unless otherwise ordered by a court. These shares of common stock may be distributed to the shareholders of Centerpoint Corporation at a future date pursuant to a dividend declared during July 2004. The shares distributed to Bion, if any, will be cancelled immediately upon receipt.

(2)

Includes 56,577 shares, 1,175,000 shares underlying options and 660,000 shares underlying warrants held directly by Mr. Bassani; 363,378 shares and 100,000 shares underlying warrants held by Mr. Bassani's wife; and 785,501 shares held in IRA accounts of Mr. Bassani and his wife. Also includes 508,000 shares owned by Mr. Bassani's daughter, Danielle Bassani, and 241,458 shares underlying warrants owned by Danielle Bassani. Also includes 3,122,314 shares and 780,578 warrants underlying units that could be issued on the conversion by Bassani of a deferred compensation promissory note in the amount of \$1,561,157. Mr. Bassani has the option to convert this amount into units with each unit consisting of 1 share of common stock and 1/4 warrant exercisable at \$1.00 per share until December 31, 2020. The conversion price will be \$.50 per unit. Also includes 702,375 shares of common stock that could be issued on the conversion (at the election of Mr. Bassani) by Mr. Bassani of a convertible note in the amount of \$421,425. The conversion price will be \$0.60 per share. Also includes 723,184 shares of common stock that could be issued on the conversion (at the election of Bassani) by Bassani of deferred compensation in the amount of \$607,474. The conversion price will be \$0.84 per share. Does not include 600,000 shares, in aggregate, which the Company has committed to issue to Mr. Bassani between January 1, 2016 and January 15, 2017. Mr. Bassani disclaims ownership of 1,411,477 shares underlying warrants held by The Danielle Christine Bassani Trust, which is separately itemized herein. Mr. Bassani's adult daughter, who lives with him, is the beneficiary of the Danielle Christine Bassani Trust and Mr. Bassani is not one of the trustees of the trust. Mr. Bassani further disclaims beneficial ownership of shares and warrants owned by various other family members, none of whom live with him or are his dependents, and such shares are not included in this calculation.

(3)

Includes 570,063 shares held directly by Mr. Orphanos plus 186,750 shares underlying warrants held directly by Mr. Orphanos; 130,263 shares held jointly with his wife; and 1,410,374 shares held in IRA accounts. Not included are 400,000 shares and 1,411,477 shares underlying warrants held by the Danielle Christine Bassani Trust, of which Mr. Orphanos is a co-trustee, and 1,614,728 common shares owned by certain clients of Blacksmith Advisors, over which Mr. Orphanos exercises discretionary authority (which shares include: a) 785,501 shares held in IRA accounts for Mr. Bassani and his wife; b) 363,378 shares held by Mr. Bassani's wife; c) 5,624 shares held by Mr. Bassani personally; and d) 68,000 shares owned by Danielle Bassani. Mr. Orphanos disclaims beneficial ownership of the shares listed in the preceding sentences because he has no pecuniary interest in the shares.

(4)

Includes 108,000 shares held directly by Danielle Bassani, 1,411,477 shares underlying warrants held by The Danielle Christine Bassani Trust, Anthony Orphanos and Donald Codignotto, trustees; 400,000 shares owned by the Danielle Bassani Trust; and 241,458 shares underlying warrants held by Danielle Bassani.

(5)

Includes 448,562 shares held directly by Mark A. Smith and 62,535 shares held by Mark Smith in an IRA; 950,000 shares underlying options held directly by Mr. Smith; 1,032,275 shares underlying warrants held directly by Mr. Smith; 177,591 shares held jointly with his wife; 53,756 shares held by his wife in her IRA; and 12,681 shares of common stock held by LoTayLingKyur Foundation which is controlled by Mr. Smith. Also includes 1,622,000 shares and 405,500 warrants underlying units that could be issued on the conversion (at the election of Mr. Smith) by Mr. Smith of a deferred compensation promissory note in the amount of \$811,000. Mr. Smith has the option to convert this amount into units with each unit consisting of 1 share of common stock and 1/4 warrant exercisable at \$1.00 per share until December 31, 2020. The conversion price will be \$.50 per unit. Also includes 224,090 shares of common stock that could be issued on the conversion (at the election of Mr. Smith) by Mr. Smith of deferred compensation in the amount of \$188,235. The conversion price will be \$0.84 per share. Does not include shares and warrants owned by various family members of which Mr. Smith disclaims beneficial ownership. Mr. Smith is also the President of Centerpoint, although shares owned by Centerpoint are not entitled to a vote while held by Centerpoint.

(6)

Includes 158,254 shares held directly by Mr. Schafer, options to purchase 600,000 shares and warrants to purchase 23,934 shares. Also includes 816,502 shares and 204,126 warrants underlying units that could be issued on the conversion by Mr. Schafer of a deferred compensation promissory note in the amount of \$403,251. Mr. Schafer has the option to convert this amount into units with each unit consisting of 1 share of common stock and 1/4 warrant exercisable at \$1.00 per share until December 31, 2020. The conversion price is \$.50 per unit. Also includes 133,603 shares of common stock that could be issued on the conversion (at the election of Mr. Schafer) by Mr. Schafer of deferred compensation in the amount of \$112,226. The conversion price will be \$0.84 per share. Also includes 28,352 shares of common stock that could be issued on the conversion (at the election of Mr. Schafer) by Mr. Schafer of a convertible note in the amount of \$17,011. The conversion price will be \$0.60 per share.

(7)

Includes 127,289 shares held directly by Jon Northrop and options to purchase 185,000 shares held by Jon Northrop. Does not include shares owned by the adult children of Jon Northrop nor his former wife.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Other than the employment/consulting agreements, deferred compensation arrangements and conversions of debt described above in Item 1 Business and Item 11 Executive Compensation, there are no related party transactions except that:

No directors of the Company are considered to be independent directors.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Audit Fees

In December 2005, the Company engaged GHP Horwath, P.C. as its independent registered public accounting firm. The aggregate fees billed for each of the last two fiscal years ended June 30, 2015 and June 30, 2016 by GHP Horwath, P.C. for professional services rendered for the audit of the Company's annual financial statements and reviews of interim financial statements included in the Company's quarterly reports on Form 10-Q (and related matters) were \$60,400 and \$61,900, respectively.

Audit Related Fees

There were no fees billed by GHP Horwath, P.C. for audit-related fees in each of the last two fiscal years ended June 30, 2015 and June 30, 2016.

Tax Fees

The aggregate fees billed for tax services rendered by GHP Horwath, P.C. for tax compliance and related services for the two fiscal years ended June 30, 2015 and June 30, 2016 were nil and nil, respectively.

All Other Fees

None.

Audit Committee Pre-Approval Policy

Under provisions of the Sarbanes-Oxley Act of 2002, the Company's principal accountant may not be engaged to provide non-audit services that are prohibited by law or regulation to be provided by it, and the Board of Directors (which serves as the Company's audit committee) must pre-approve the engagement of the Company's principal accountant to provide audit and permissible non-audit services. The Company's Board has not established any policies or procedures other than those required by applicable laws and regulations.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

Exhibit

Number

Description and Location

3.1

Articles of Incorporation. (1)

3.2

Bylaws. (1)

10.1

Subscription Agreement dated January 10, 2002 between Bion Environmental Technologies, Inc. and Centerpoint Corporation regarding issuance of stock in exchange for cash and claims regarding Aprilia. (1)

10.2

Agreement dated March 15, 2002 and effective January 15, 2002 between Bion Environmental Technologies, Inc. and Centerpoint Corporation regarding purchase of warrant and management agreement. (1)

10.3

Agreement dated February 12, 2003 between Bion Environmental Technologies, Inc. and Centerpoint Corporation canceling provisions of the Subscription Agreement by and between Bion Environmental Technologies, Inc. and Centerpoint Corporation. (1)

10.4

Promissory Note and Security Agreement between Bion Environmental Technologies, Inc. and Bright Capital, LLC. (1)

10.5

First Amendment to Lease between Bion Environmental Technologies, Inc. and Pan Am Equities Corp. (1)

10.6

Agreement between Bion Environmental Technologies, Inc. and Bergen Cove. (1)

10.7

Agreement between Bion Environmental Technologies, Inc. and David Mitchell dated April 7, 2003. (1)

10.8

Letter Agreement with Bright Capital, Ltd. (1)

10.9

Agreement with OAM, S.p.A. dated May 2003. (1)

10.10

Amended Agreement with Centerpoint Corporation dated April 23, 2003. (1)

10.11

Form of Series A Secured Convertible Notes issued in August 2003. (1)

10.12

Financing Documents for Bion Dairy Corporation. (1)

10.13

Form of Class SV/DB Warrant. (1)

10.14

Form of Class SV/DM Warrant. (1)

10.15

Form of Series A* Secured Convertible Notes issued in April 2004. (1)

10.16

Form of Series B Secured Convertible Notes issued in Spring 2004. (1)

10.17

Form of Series B* Secured Convertible Notes issued in June 2004. (1)

10.18

Form of Series C Notes issued in September 2005. (1)

10.19

Form of 2006 Series A Convertible Promissory Notes issued in September 2006. (1)

58

10.20

Form of Non-Disclosure Agreement used by the Company. (1)

10.21

Promissory Note and Conversion Agreement between Bion Environmental Technologies, Inc. and Mark A. Smith related to deferred compensation. (1)

10.22

Promissory Note and Conversion Agreement between Bion Environmental Technologies, Inc. and Bright Capital, Ltd. related to deferred compensation. (1)

10.23

Employment agreement with Mark A. Smith. (1)

10.24

Employment agreement with Salvatore Zizza. (1)

10.25

Employment agreement with Bright Capital, Ltd. (1)

10.26

Employment agreement with Jeff Kapell. (1)

10.27

Employment agreement with Jeremy Rowland. (1)

10.28

Office lease at 641 Lexington Avenue, 17th Floor, New York. (1)

10.29

2006 Consolidated Incentive Plan. (1)

10.30

Memo to Dominic Bassani & Bright Capital, Ltd. dated October 16, 2006 regarding Change in Title/Status of DB/Amendment to Brightcap Agreement. (1)

10.31

Letter Agreement between Bion Dairy Corporation and Fair Oaks Dairy Farms dated June 19, 2006. (2)

10.32

Waiver and Release Agreement with Ardour Capital Investments, LLC. (2)

10.33

Promissory Note and Conversion Agreement for Mark Smith, dated January 1, 2007. (2)

10.34

Promissory Note and Conversion Agreement for Salvatore Zizza, dated January 1, 2007. (2)

10.35

Promissory Note and Conversion Agreement for Bright Capital, Ltd., dated January 1, 2007. (2)

10.36

Extension Agreement dated March 31, 2007 between the Company and Mark A Smith. (3)

10.37

Form of Note dated March 31, 2007 in the amount of \$151,645.89 in favor of Mark A. Smith. (3)

10.38

Form of Note dated March 31, 2007 in the amount of \$379,389.04 in favor of Salvatore Zizza. (3)

10.39

Form of Note dated March 31, 2007 in the amount of \$455.486.30 in favor of Bright Capital, Ltd. (3)

10.40

Stipulation and Agreement of Compromise and Release dated May 21, 2007 between Centerpoint Corporation, Bion Environmental Technologies, Richard Anderson and Joseph Foglia, as Plaintiffs, and Comtech Group, Inc., OAM S.p.A., Invested Ernst & Company and others as Defendants. (4)

10.41

Stipulation and Agreement of Compromise, Settlement and Release dated May 15, 2007 between TCMP3 Partners, LLP as Plaintiff and Bion Environmental Technologies, Inc. and Bion Dairy Corporation, among others, as Defendants. (4)

10.42

Stipulation and Agreement of Compromise, Settlement and Release as to Certain Defendants dated May 15, 2007 between TCMP3 Partners, LLP as Plaintiff and certain defendants other than Bion Environmental Technologies, Inc. and Bion Dairy Corporation. (4)

59

10.43

Letter of Intent dated August 18, 2007 between Bion Environmental Technologies, Inc. and Evergreen Farm, Inc. (5)

10.44

Memorandum of Understanding with Kreider Farms. (6)

10.45

Subscription Agreement from Bright Capital, Ltd. (7)

10.46

Amendment to 2006 Consolidated Incentive Plan. (7)

10.47

Agreement between the Company and Mark A. Smith dated May 31, 2008. (7)

10.48

2007 Series AB Convertible Promissory Note. (8)

10.49

Promissory Note between Bion Environmental Technologies, Inc. and Salvatore Zizza. (9)

10.50

Promissory Note between Bion Environmental Technologies, Inc. and Dominic Bassani. (9)

10.51

Agreement between Jeff Kapell and Bion dated November 1, 2008. (10)

10.52

Agreement between David Mager and Bion dated November 1, 2008. (10)

10.53

Promissory Note between Anthony Orphanos and Bion dated October 30, 2008, Guaranteed by Dominic Bassani. (10)

10.54

Addendum to Settlement Agreement and Release Stipulation from Bion, Bion Dairy and Mark Smith dated October 31, 2008. (10)

10.55

Kreider Farms Agreement (September 25, 2008): REDACTED. (11)

10.56

Agreement between Salvatore Zizza and Bion effective December 31, 2008. (12)

10.57

Amendment #3 to 2006 Consolidated Incentive Plan. (12)

10.58

Agreement between Bright Capital, Ltd. and Dominic Bassani and Bion effective January 11, 2009. (13)

10.59

Agreement between Mark A. Smith and Bion effective January 12, 2009. (13)

10.60

Orphanos Extension Agreement dated January 13, 2009. (13)

10.61

Articles of Amendment including Statement of Designation and Determination of Preferences of Series B Convertible Preferred Stock. (14)

10.62

Lease Agreement between Ronald Kreider and Kreider Farms and Bion PA 1 LLC dated June 26, 2009. (15)

10.63

Capitalization Agreement between Bion Companies and Bion PA 1 LLC dated June 30, 2009. (15)

10.64

Zizza Notice re Master Sublease Option Exercise (November 20, 2009). (16)

10.65

Town of Schroepfel resolution (December 10, 2009). (16)

10.66

Articles of Amendment including Statement of Designation and Determination of Preferences of Series C Convertible Preferred Stock. (17)

10.67

Extension Agreement with Mark A. Smith. (18)

60

10.68

Agreement with Edward Schafer. (18)

10.69

Accepted Funding Offer (base loan agreement) (without exhibits) with PENNVEST for Kreider Farms Project Loan -- effective November 3, 2010. (19)

10.70

Short Form Agreement. (20)

10.71

Resume of William O Neill. (20)

10.72

Loan & Security Agreement with Milestone Bank. (21)

10.73

O'Neill Employment Agreement (dated December 22, 2010). (22)

10.74

Schafer Employment Agreement (dated December 21, 2010). (22)

10.75

Biography of Edward T. Schafer. (22)

10.76

James Morris Employment Agreement. (23)

10.77

John R. Grabowski Employment Agreement. (23)

10.78

Kreider Farms Clarification Agreement. (23)

10.79

Resignation of William O Neill (effective May 13, 2011). (24)

10.80

PADEP Certification of Kreider Poultry Credits. (25)

10.81

Bassani/Bright Capital Extension Agreement (executed August 31, 2011) (26)

10.82

Smith Extension Agreement (executed August 31, 2011) (26)

10.83

Bloom Employment Agreement (executed September 30, 2011) (27)

10.84

Extension/Conversion Agreement with Smith and Bassani (dated March 31, 2012) (28)

10.85

Memorialization of extension of Maturity of Bassani convertible deferred compensation (dated July 31, 2012) (29)

10.86

Kreider Permit (dated August 1, 2012) (29)

10.87

Memorialization of Smith Extension Agreement (dated August 14, 2012) (30)

10.88

Memorialization of Bassani Extension Agreement (dated August 14, 2012) (30)

10.89

Memorialization of Schafer Agreement (dated August 21, 2012) (30)

10.90

Board Ratification dated May 5, 2013 (31)

10.91

Demand Promissory Note dated May 13, 2013 (31)

10.92

Pennvest Demand Letter (dated September 25, 2014) (32)

10.93

Extension Agreement with Mark A. Smith (w/o exhibits) (February 10, 2015) (33)

10.94

Extension Agreement with Dominic Bassani (w/o exhibits) (February 10, 2015) (33)

10.95

Agreement with Edward Schafer (w/o exhibits) (February 10, 2015) (33)

10.96

Convertible Promissory Note between the Company and Dominic Bassani dated September 8, 2015 (filed herewith electronically)

10.97

Convertible Promissory Note between the Company and Edward Schafer dated September 8, 2015 (filed herewith electronically)

10.98

Convertible Promissory Note between the Company and Anthony Orphanos dated September 8, 2015 (filed herewith electronically)

10.99

Kreider Poultry Joint Venture Agreement (May 5, 2016) (34)

21

Subsidiaries of the Registrant. (1)

23.1

Consent of GHP Horwath, P.C., Independent Registered Public Accounting Firm - Filed herewith electronically.

31.1

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Filed herewith electronically.

31.2

Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Filed herewith electronically.

32.1

Certification of Chief Executive Officer Pursuant to Section 18 U.S.C. Section 1350 - Filed herewith electronically.

32.2

Certification of Principal Financial Officer Pursuant to Section 18 U.S.C. Section 1350 - Filed herewith electronically.

(1)

Filed with Form 10SB12G on November 14, 2006.

(2)

Filed with Form 10SB12G/A on February 1, 2007.

(3)

Filed with Form 8-K on April 3, 2007.

(4)

Filed with Form 8-K on August 13, 2007.

(5)

Filed with Form 8-K on August 22, 2007.

(6)

Filed with Form 8-K on February 27, 2008.

(7)

Filed with Form 8-K on June 3, 2008.

(8)

Filed with Form 8-K on June 19, 2008.

(9)

Filed with Form 8-K on September 30, 2008.

(10)

Filed with Form 8-K on November 13, 2008.

(11)

Filed with September 30, 2008 Form 10-Q on November 14, 2008.

(12)

Filed with Form 8-K on January 6, 2009.

(13)

Filed with Form 8-K on January 15, 2009.

(14)

Filed with March 31, 2009 Form 10-Q on May 14, 2009.

(15)

Filed with Form 8-K on July 2, 2009.

(16)

Filed with Form 8-K on December 15, 2009.

(17)

Filed with December 31, 2009 Form 10-Q on February 9, 2010.

(18)

Filed with Form 8-K on August 18, 2010.

(19)

Filed with Form 8-K on November 3, 2010.

(20)

Filed with Form 8-K on November 22, 2010.

(21)

Filed with Form 8-K on December 6, 2010.

(22)

Filed with Form 8-K on December 28, 2010.

(23)

Filed with Form 8-K on March 16, 2011.

(24)

Filed with Form 8-K on May 13, 2011.

(25)

Filed with Form 8-K on June 1, 2011.

(26)

Filed with Form 8-K on September 2, 2011.

(27)

Filed with Form 8-K on October 4, 2011.

(28)

Filed with Form 8-K on April 4, 2012.

(29)

Filed with Form 8-K on August 3, 2012

(30)

Filed with Form 8-K on August 21, 2012.

(31)

Filed with March 31, 2013 Form 10-Q on May 14, 2013.

(32)

Filed with June 30, 2014 10-K on September 26, 2014.

(33)

Filed with December 31, 2014 Form 10-Q on February 11, 2015.

(34)

Filed with March 31, 2016 Form 10-Q on May 9, 2016.

(b) Financial Statement Schedules

Our consolidated financial statements being filed as part of this Form 10-K are filed on Item 8 of this Form 10-K. All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

CONTENTS

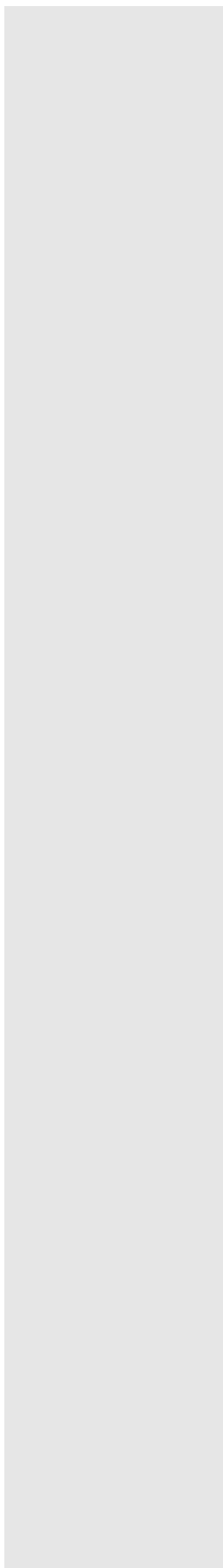
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Consolidated financial statements:	
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Bion Environmental Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Bion Environmental Technologies, Inc. and subsidiaries ("the Company") as of June 30, 2016 and 2015, and the related consolidated statements of operations, changes in equity (deficit) and cash flows for each of the two years in the period ended June 30, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bion Environmental Technologies, Inc. and subsidiaries as of June 30, 2016 and 2015, and the results of their operations and cash flows for each of the two years in the period ended June 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has not generated significant revenue and has suffered recurring losses from operations. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/GHP HORWATH, P.C.

Denver, Colorado

September 19, 2016

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**BION
ENVIRONMENTAL
TECHNOLOGIES,
INC. AND
SUBSIDIARIES**

**CONSOLIDATED
BALANCE SHEETS**

June 30, 2016

June 30, 2015

ASSETS

Current assets:

Cash

\$

170,194

\$

339,286

Prepaid expenses

15,240

18,503

Subscription receivable
(Note 9)

7,500

13,125

Deposits and other
receivables

1,000

7,108

Total current assets

193,934

378,022

Property and
equipment, net (Note
3)

4,259

1,977,219

Total assets

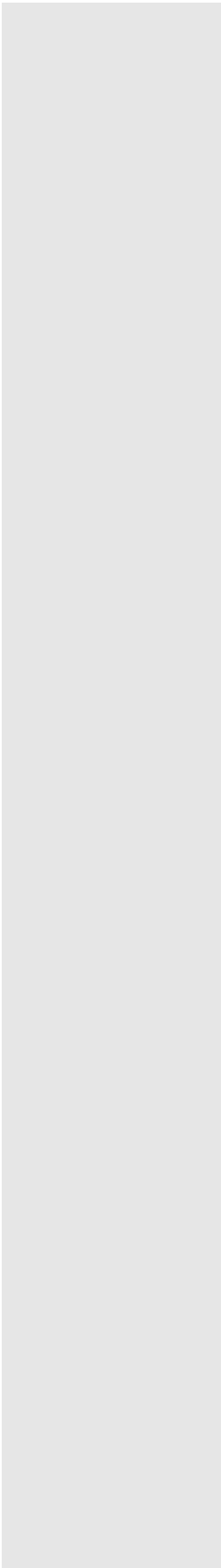
\$

198,193

\$

2,355,241

LIABILITIES AND
EQUITY (DEFICIT)



Current liabilities:

Accounts payable and
accrued expenses

\$

768,272

\$

776,167

Series B Redeemable
Convertible Preferred
stock, \$0.01 par value,

50,000 shares
authorized; 200 shares
issued and outstanding,

liquidation preference
of \$30,000 and
\$28,000, respectively
(Note 9)

27,400

25,400

Notes payable -
affiliates, net of
discount (Note 5)

-

472,230

Deferred compensation
(Note 6)

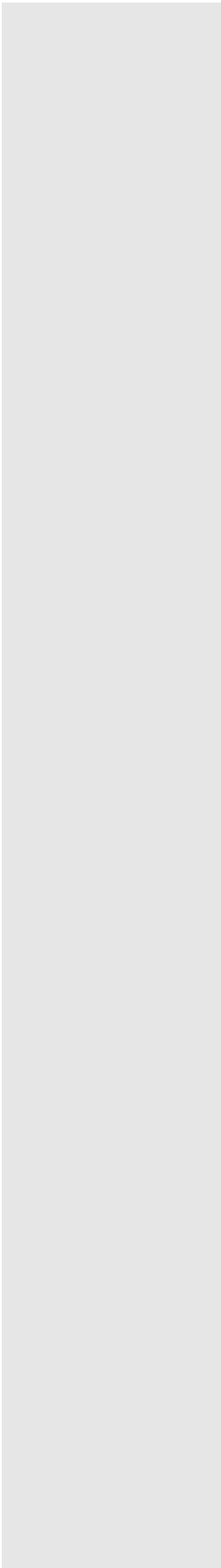
1,436,595

839,288

Loan payable and
accrued interest (Note
7)

8,563,662

8,331,001



Total current liabilities

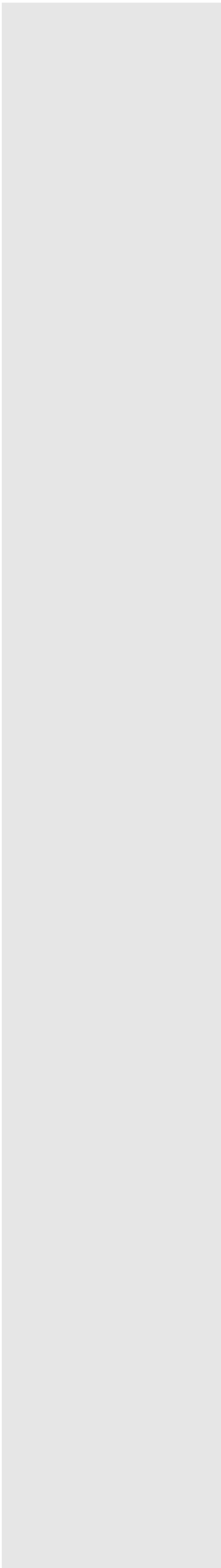
10,795,929

10,444,086

Convertible notes
payable - affiliates
(Note 8)

3,280,647

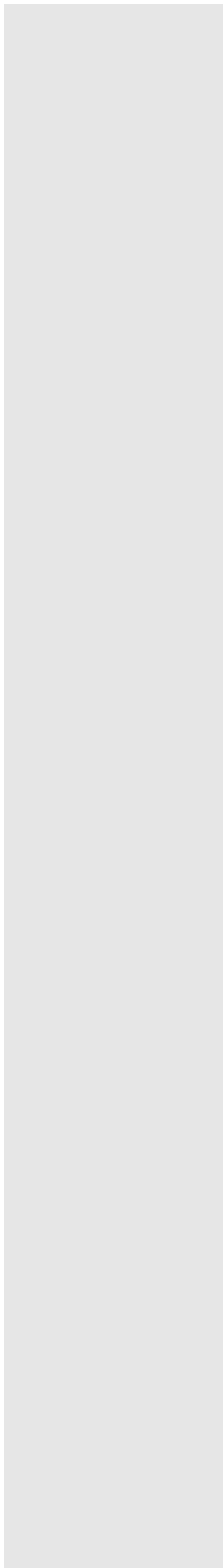
2,654,708



Total liabilities

14,076,576

13,098,794



Deficit:

Bion's stockholders'
equity (deficit):

Series A Preferred
stock, \$0.01 par value,
10,000 shares
authorized,

no shares issued and
outstanding

-

-

Series C Convertible
Preferred stock, \$0.01
par value,

60,000 shares
authorized; no shares
issued and outstanding

-

-

Common stock, no par
value, 100,000,000
shares authorized,

23,573,057 and
22,089,650 shares
issued, respectively;
22,868,748

and 21,385,341
shares outstanding,
respectively

-

-

Additional paid-in
capital

102,278,364

100,891,127

Accumulated deficit

(116,216,493)

(111,698,060)

Total Bion's
stockholders deficit

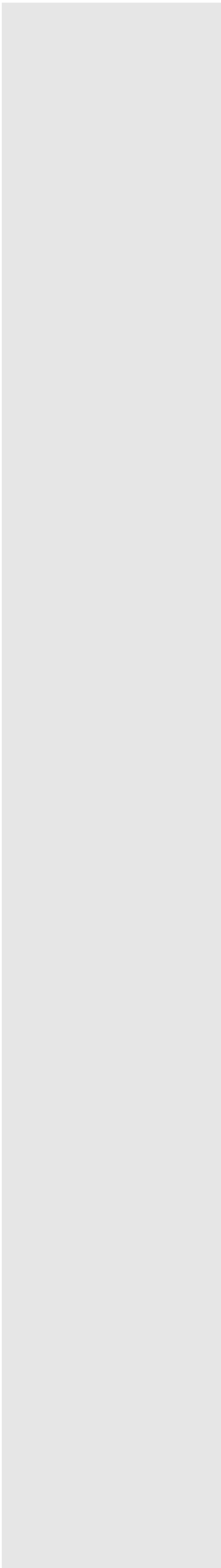
(13,938,129)

(10,806,933)

Noncontrolling interest

59,746

63,380



Total deficit

(13,878,383)

(10,743,553)

Total liabilities and
deficit

\$

198,193

\$

2,355,241

See notes to consolidated financial statements.

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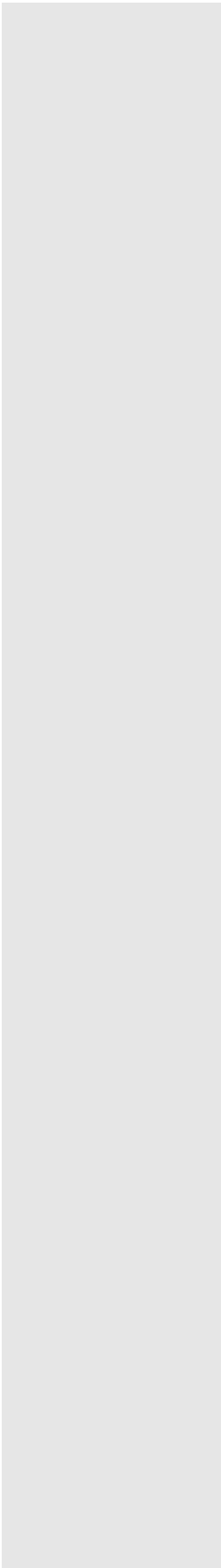
**BION
ENVIRONMENTAL
TECHNOLOGIES,
INC. AND
SUBSIDIARIES**

**CONSOLIDATED
STATEMENTS OF
OPERATIONS**

**YEARS ENDED
JUNE 30, 2016 AND
2015**

2016

2015



Revenue

\$
3,658

\$

3,658

Operating expenses:

General and
administrative
(including

stock-based
compensation (Note
9))

1,816,341

2,375,145

Depreciation

293,577

623,934

Impairment loss on
property and
equipment

1,684,562

1,750,000

Research and
development
(including

stock-based
compensation (Note
9))

348,559

520,462

Total operating
expenses

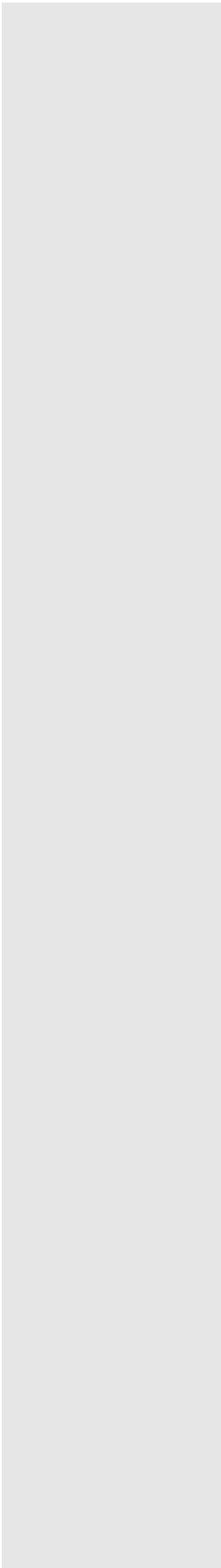
4,143,039

5,269,541

Loss from operations

(4,139,381)

(5,265,883)



Other expense:

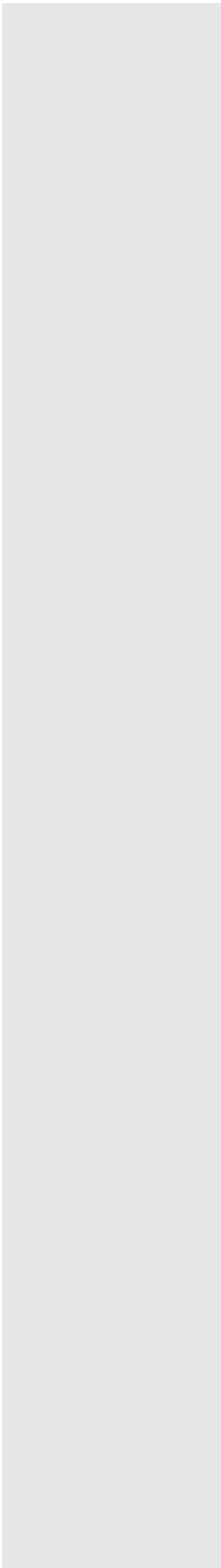
Interest expense, net

382,686

375,705

380,686

373,705



Net loss

(4,522,067)

(5,641,588)

Net loss attributable to
the noncontrolling
interest

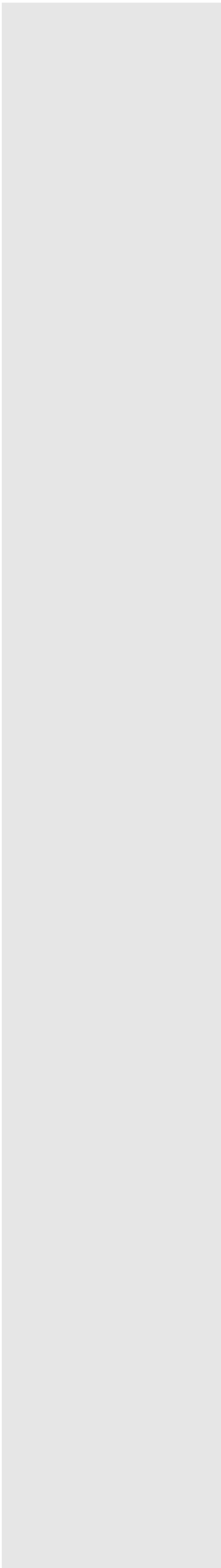
3,634

11,397

Net loss attributable to
Bion

(4,518,433)

(5,630,191)



Conversion
inducement

-

(9,593)

Net loss applicable to
Bion's common

stockholders

\$

(4,518,433)

\$

(5,639,784)

Net loss applicable to
Bion's common

stockholders per
basic and diluted
common

share

\$

(0.20)

\$
(0.27)

Weighted-average
number of common
shares

outstanding:

Basic and diluted

22,745,281

20,545,456

See notes to consolidated financial statements.

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**BION
ENVIRONMENTAL
TECHNOLOGIES,
INC. AND
SUBSIDIARIES**

**CONSOLIDATED
STATEMENTS OF
CHANGES IN
EQUITY (DEFICIT)**

**YEARS ENDED
JUNE 30, 2016 AND
2015**

Bion's Shareholders'

Series C Preferred
Stock

Common Stock

Promissory Note

Non-

Shares

Amount

Shares

Amount

Additional
paid-in capital

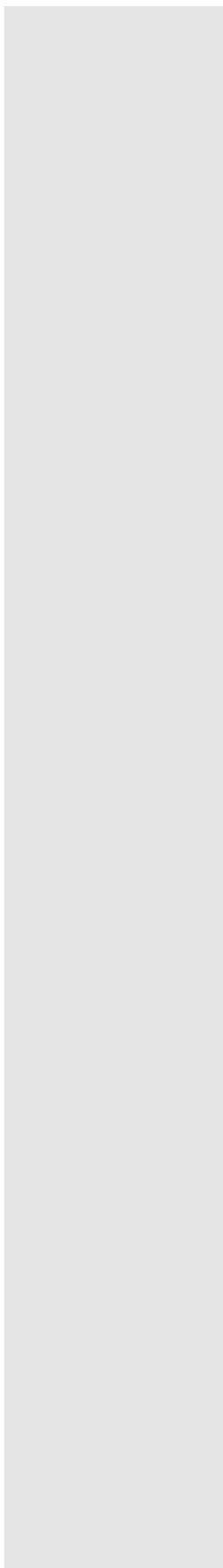
Receivable

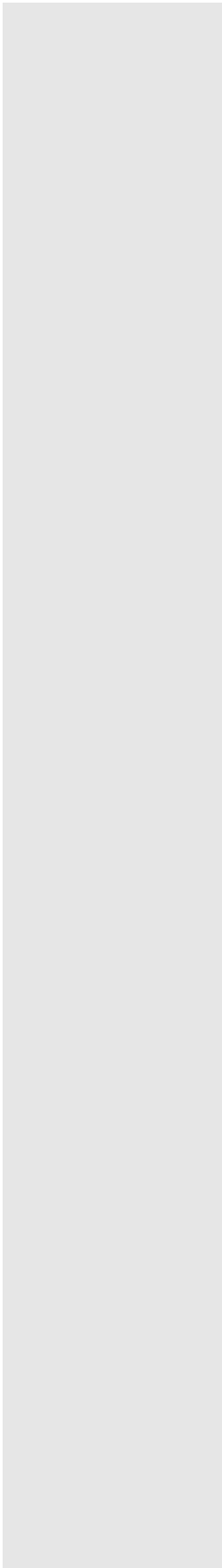
for Shares

Accumulated
deficit

controlling
interest

Total
equity/(deficit)





Balances, July 1, 2014

-

\$

-

19,576,619

\$

-

\$

98,537,032

\$

-

\$

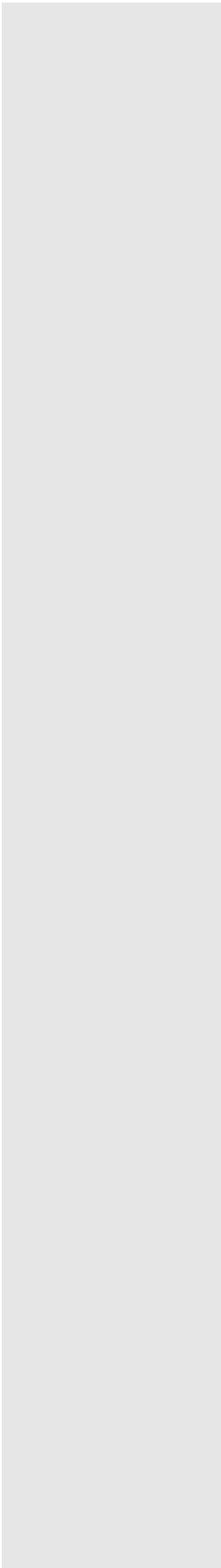
(106,067,869)

\$

74,777

\$

(7,456,060)



Issuance of common
stock for

services

-

-

120,647

-

41,028

-

-

-

41,028

Vesting of options for
services

-

-

-

-

501,609

-

-

-

501,609

Modification of
options

-

-

-

-

369,283

-

-

-

369,283

Issuance of warrants
for interest

and commissions

-

-

-

-

72,118

-

-

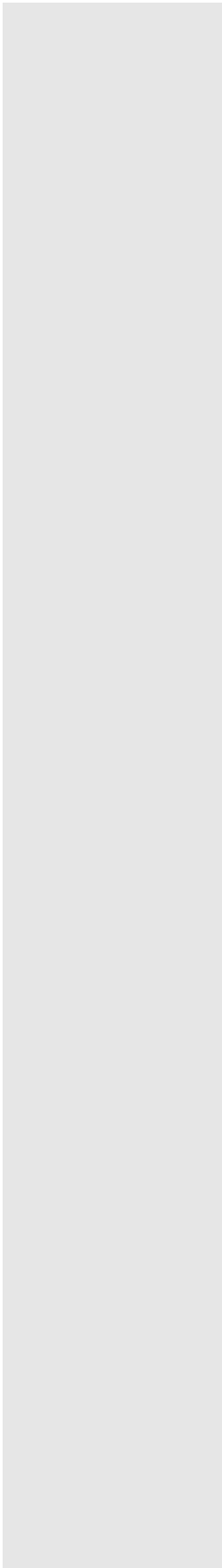
-

72,118

Modification of
warrants

-

-



-

-

230,636

-

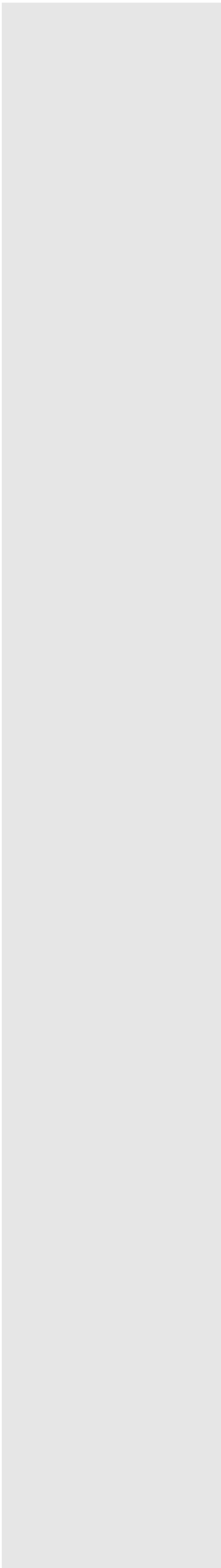
-

-

230,636

Sale of common stock

-



-

75,000

-

26,250

-

-

-

26,250

Sale of units

-

-

1,800,000

-

900,000

-

-

-

900,000

Commissions on sale
of units

-

-

-

-

(61,522)

-

-

-

(61,522)

Warrants exercised for
common

stock

-

-

71,133

-

87,815

-

-

-

87,815

Conversion of debt

-

-

466,251

-

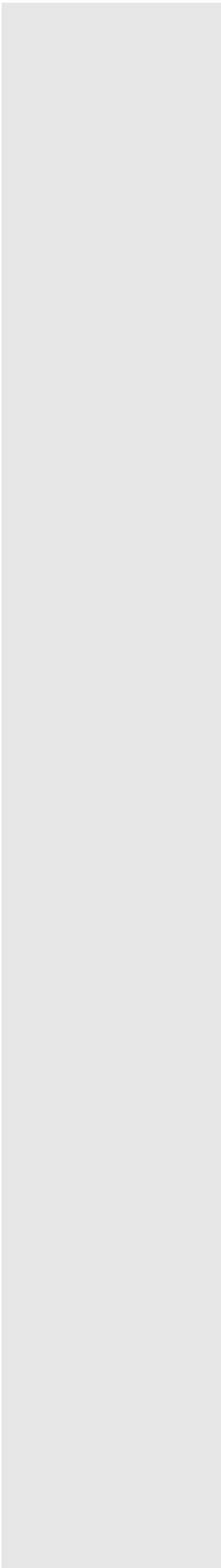
186,878

-

-

-

186,878



Cancellation of
common stock

-

-

(20,000)

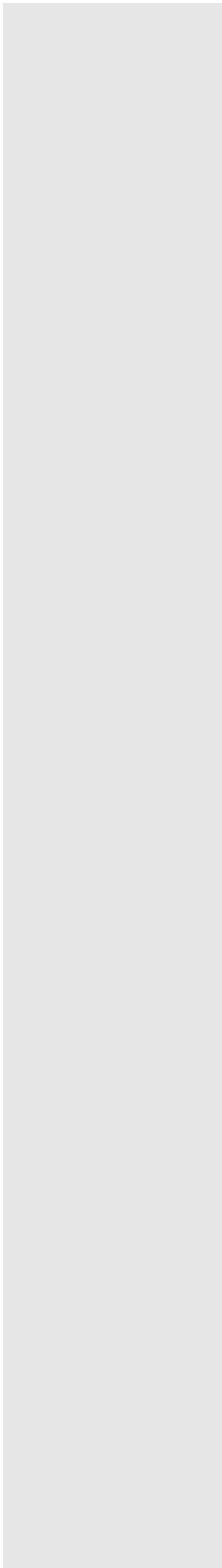
-

-

-

-

-



Net loss

-

-

-

-

-

-

-

(5,630,191)

(11,397)

(5,639,588)

Balances, June 30,
2015

-

-

22,089,650

-

100,891,127

-

(111,698,060)

63,380

(10,743,553)

Issuance of common
stock for
services

-

-

242,034

-

228,558

-

-

-

228,558

Vesting of options for
services

-

-

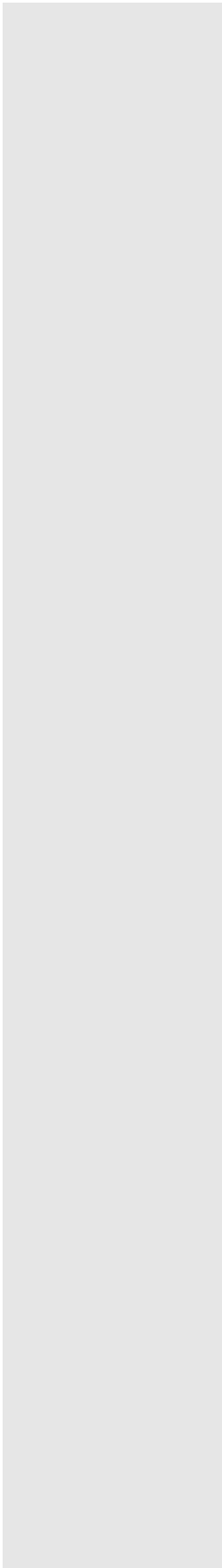
-

-

99,553

-

-



-

99,553

Modification of
options

-

-

-

-

42,550

-

-

-

42,550

Sale of units

-

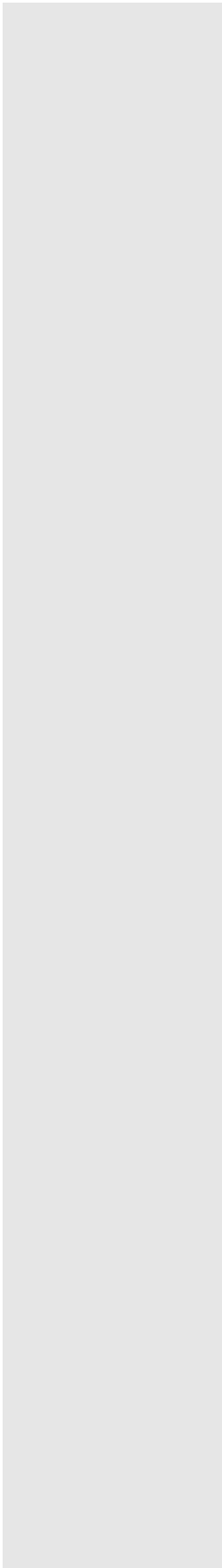
-

393,698

-

314,957

-



-

-

314,957

Commissions on sale
of units

-

-

-

-

(24,496)

-

-

-

(24,496)

Warrants exercised for
common
stock

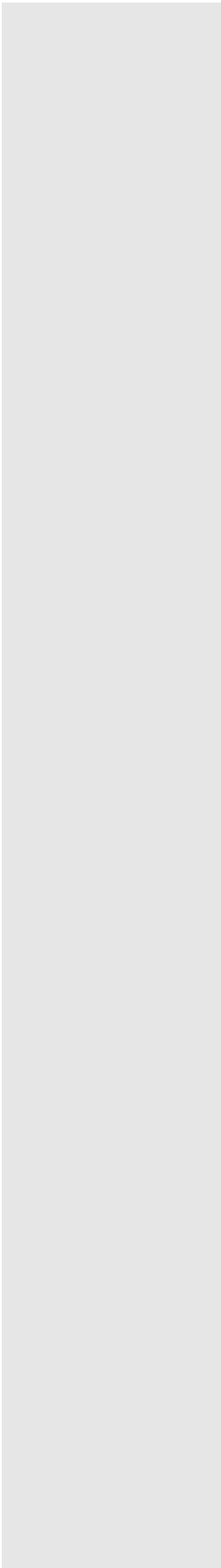
-

-

562,839

-

500,022



(62,727)

-

-

437,295

Cancellation of
common stock

-

-

(57,142)

-

(60,000)

62,727

-

-

2,727

Conversion of debt

-

-

341,978

-

286,093

-

-

-

286,093

Net loss

-

-

-

-

-

-

(4,518,433)

(3,634)

(4,520,067)

Balances, June 30,
2016

-

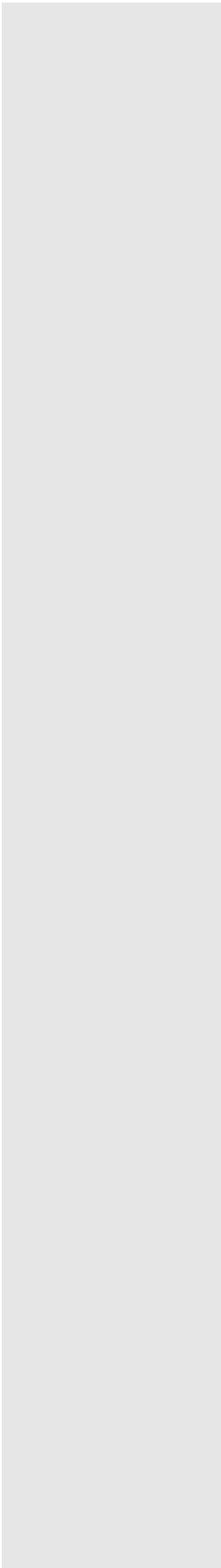
\$

-

23,573,057

\$

-



\$
102,278,364

\$
-

\$
(116,216,493)

\$
59,746

\$
(13,878,383)

See notes to consolidated financial statements.

F-5

**BION
ENVIRONMENTAL
TECHNOLOGIES,
INC. AND
SUBSIDIARIES**

**CONSOLIDATED
STATEMENTS OF
CASH FLOWS**

**YEARS ENDED
JUNE 30, 2016 AND
2015**

2016

2015

**CASH FLOWS FROM
OPERATING
ACTIVITIES**

Net loss

\$

(4,522,067)

\$

(5,641,588)

Adjustments to
reconcile net loss to net
cash used in operating
activities:

Depreciation expense

293,577

623,934

Impairment loss on
property and
equipment

1,684,562

1,750,000

Accrued interest on
loan payable, deferred
compensation and
other

418,171

449,549

Stock-based
compensation

370,661

1,142,556

Decrease (increase) in
prepaid expenses

3,263

(1,497)

Decrease in deposits
and other receivables

6,108

-

Decrease in accounts
payable and accrued
expenses

(7,896)

(163,738)

Increase in deferred
compensation and
convertible notes

853,600

1,030,784

Net cash used in
operating activities

(900,021)

(810,000)

CASH FLOWS FROM
INVESTING
ACTIVITIES

Purchase of property
and equipment

(5,179)

-

Net cash
used by investing
activities

(5,179)

-

CASH FLOWS FROM
FINANCING
ACTIVITIES

Decrease in
subscription receivable

13,125

30,000

Proceeds from sale of
common stock

-

26,250

Proceeds from sale of
units

314,957

893,720

Proceeds from exercise
of warrants

387,522

74,690

Commissions on sale
of units

(24,496)

(61,522)

Proceeds from
promissory note
receivable

45,000

-

Net cash provided by
financing activities

736,108

963,138

Net (decrease) increase
in cash

(169,092)

153,138

Cash at beginning of
period

339,286

186,148

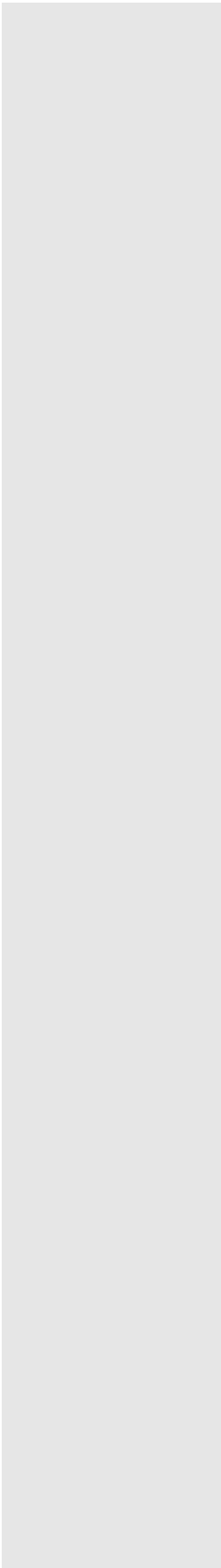
Cash at end of period

\$

170,194

\$

339,286



Supplemental
disclosure of cash flow
information:

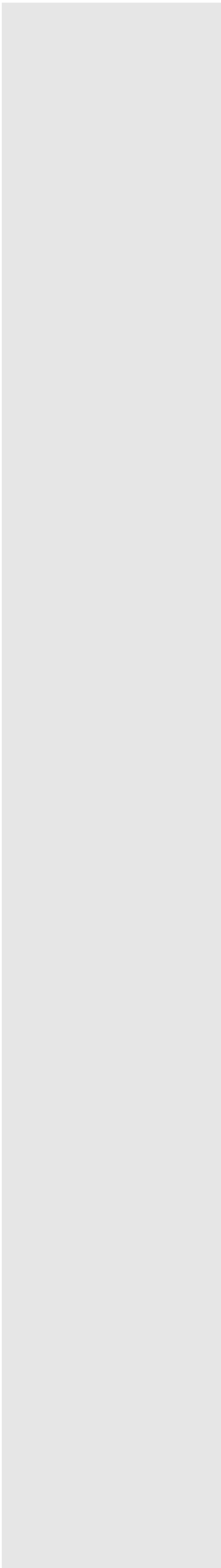
Cash paid for interest

\$

-

\$

-



Non-cash investing and
financing transactions:

Issuance of common
stock to satisfy
deferred compensation

\$
286,093

\$
80,780

Exercise of warrants
for promissory note
receivable for shares

\$

105,000

\$

-

Cancellation of shares
and related promissory
note receivable

\$

(60,000)

\$

-

Conversion of debt to
equity

\$

-

\$

112,379

Subscription receivable

\$

7,500

\$

13,125

See notes to consolidated financial statements.

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BION ENVIRONMENTAL TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

1.

ORGANIZATION, NATURE OF BUSINESS, GOING CONCERN AND MANAGEMENT S PLANS:

Organization and nature of business:

Bion Environmental Technologies, Inc. (Bion or We or the Company) was incorporated in 1987 in the State of Colorado and has developed and continues to develop patented and proprietary technology and business models that provide comprehensive environmental solutions to a significant source of pollution in United States agriculture, large scale livestock facilities known as Confined Animal Feeding Operations (CAFO s). Bion s technologies (and applications related thereto) produce substantial reductions of nutrient releases (primarily nitrogen and phosphorus) to both water and air (including ammonia, which is subsequently re-deposited to the ground) from livestock waste streams based upon our operations and research to date (and third party peer review thereof). We are continually involved in research and development to upgrade and improve our technology and technology applications, including integration with third party technology. Bion provides comprehensive and cost-effective treatment of livestock waste onsite (and/or at nearby locations), while it is still concentrated and before it contaminates air, soil, groundwater aquifers and/or downstream waters, and, in certain configurations, can be optimized to maximize recovery of marketable nutrients for potential use as fertilizer (organic and/or inorganic) and/or feed additives plus renewable energy (and related environmental credits).

During the 2014, 2015 and 2016 fiscal years, the Company increased its research and development focus on augmenting the basic separate and aggregate approach of its technology platform to provide additional flexibility and to increase recovery of marketable nutrient by-products (in organic and non-organic forms) and renewable energy production (either/both biogas and/or renewable electricity), thereby increasing potential related revenue streams and reducing dependence of its future projects on the monetization of nutrient reductions (which still remain a very important part of project revenue streams). This research and development effort also involves ongoing review of potential add-ons and applications to our technology platform for use in different regulatory and/or climate environments. These research and development activities have targeted completion of development of the next generation of Bion s technology and technology platform. We believe such activities will continue at least through the 2017 fiscal year, subject to availability of adequate financing for the Company s operations, of which there is no assurance.

Currently, Bion is focused on using applications of its patented and proprietary waste management technologies and technology platform to pursue three main business

opportunities: 1) installation of Bion systems (some of which may generate verified nutrient credits and revenues from the production of renewable energy and byproducts) to retrofit and environmentally remediate existing CAFOs (Retrofits) in selected markets where: a) government policy supports such efforts (such as the Chesapeake Bay watershed, Great Lakes Basin states, and/or other states and watersheds facing EPA total maximum daily load (TMDL) issues, and/or b) where CAFO s need our technology to obtain permits to expand or develop without negative environmental consequences; 2) development of new state-of-the-art large scale waste treatment facilities in strategic locations (Projects) (some of these may be Integrated Projects as described below) with multiple revenue streams, and 3) licensing and/or joint venturing of Bion s technology and applications (primarily) outside North America. The opportunities described at 1) and 2) above each require substantial political and regulatory (federal, state and local) efforts on the part of the Company and a substantial part of Bion s efforts are focused on such political and regulatory matters. Bion is currently pursuing the international opportunities primarily through the use of consultants with existing relationships in target locations. The most intense focus is currently on the requirements for the clean-up of the Chesapeake Bay faced by the Commonwealth of Pennsylvania and the potential use of Bion s technology and technology platform on CAFOs as an alternative to what the Company believes is far more expensive nutrient removal downstream in storm water projects.

Management believes that Bion's technology platform (including utilization of various third party technologies to supplement the Company's proprietary technologies), through the combination of remediation of the waste streams of large scale existing CAFOs with recovery of valuable marketable nutrients and renewable energy, can enable the integration of large-scale CAFOs and their end-product users, renewable energy production from the CAFO waste stream, on site utilization of the renewable energy generated and biofuel/ethanol production in an environmentally and economically sustainable manner while reducing the aggregate capital expense, operating costs and environmental footprint for the entire integrated complex (Integrated Projects). In the context of Integrated Projects, Bion's waste treatment process, in addition to mitigating polluting releases, enables generation of renewable energy from the CAFO waste stream, which renewable energy can be sold into renewable energy markets (with material economic incentives) and/or utilized by integrated facilities including ethanol plants, CAFO end-product processors (including cheese, ice cream and/or bottling plants in the case of dairy CAFOs and/or slaughter and/or processing facilities in the context of beef and/or swine CAFOs) and/or other users as a fossil fuel replacement. The nutrients (primarily nitrogen and phosphorus) can be harvested from the solids and liquid streams recovered from the livestock waste stream and can be utilized as either high value fertilizer (organic and/or inorganic) and/or the basis for high protein animal feed and the nutrient rich effluent can potentially be utilized in integrated hydroponic agriculture and/or field applied as fertilizer. Bion believes that its large scale Projects (including Integrated Projects) will produce high quality, traceable animal protein which can address consumer food safety/security concerns at a lower cost than current industry practices while also maintaining a far lower net environmental footprint per unit of protein produced due to water recycling (possible due to the removal of nutrients, etc. from the water by Bion's technology applications), production of renewable energy from the waste stream (reducing the use of fossil fuels), and multiple levels of economies of scale, co-location and integration savings in transportation and other logistics. Projects may involve various degrees of integration which will limit the benefits described herein.

During 2008 the Company commenced actively pursuing the opportunity presented by environmental retrofit and remediation of the waste streams of existing CAFOs which effort has met with very limited success to date. The first commercial activity in this area is represented by our agreement with Kreider Farms (KF), pursuant to which the Kreider 1 system to treat KF's dairy waste streams to reduce nutrient releases to the environment while generating marketable nutrient credits and renewable energy was designed, constructed and entered full-scale operation during 2011. On January 26, 2009 the Board of the Pennsylvania Infrastructure Investment Authority (Pennvest) approved a \$7.75 million loan to Bion PA 1, LLC (PA1), a wholly-owned subsidiary of the Company, for the initial Kreider Farms project (Kreider 1 System). After substantial unanticipated delays, on August 12, 2010 PA1 received a permit for construction of the Kreider 1 system. Construction activities commenced during November 2010. The closing/settlement of the Pennvest Loan took place on November 3, 2010. PA1 finished the construction of the Kreider 1 System and entered a period of system operational shakedown during May 2011. The Kreider 1 System reached full, stabilized operation by the end of the 2012 fiscal year. During 2011 the Pennsylvania Department of Environmental Protection (PADEP) re-certified the nutrient credits for this project. The PADEP issued final permits for the Kreider 1 System (including the credit verification plan) on August 1, 2012 on which date the Company deemed that the Kreider System was placed in service . As a result, PA1 commenced generating nutrient reduction credits for potential sale while continuing to utilize the Kreider 1 system to test improvements and add-ons. However, to date liquidity in the Pennsylvania nutrient credit market has been slow to develop significant breadth and depth, which limited

liquidity/depth has negatively impacted Bion's business plans and has resulted in challenges to monetizing the nutrient reductions created by PA1's existing Kreider 1 project and Bion's other proposed projects. These difficulties have prevented PA1 from generating any material revenues from the Kreider 1 project to date and raise significant questions as to when, if ever, PA1 will be able to generate such revenues from the Kreider 1 system. PA1 has had sporadic discussions/negotiations with Pennvest related to forbearance and/or re-structuring its obligations pursuant to the Pennvest Loan for more than three years. In the context of such discussions/negotiations, PA1 elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, the Company has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has classified the Pennvest Loan as a current liability as of June 30, 2016. Due to the failure of the Pennsylvania nutrient reduction credit market to develop, the Company determined that the carrying amount of the property and equipment related to the Kreider 1 project exceeded its estimated future undiscounted cash flows based on certain assumptions regarding timing, level and probability of revenues from sales of nutrient reduction credits and, therefore, PA1 and the Company recorded impairments related to the value of the Kreider 1 assets of \$1,750,000 and \$2,000,000 at June 30, 2015 and June 30, 2014, respectively. During the 2016 fiscal year, effective June 30, 2016, PA1 and the Company recorded an impairment of \$1,684,562 to the value of the Kreider 1 assets which reduced the value on the Company's books to \$0. This impairment reflects management's judgment that the salvage value of the Kreider 1 assets roughly equals PA1's contractual obligations related to the Kreider 1 system, including expenses related to decommissioning of the Kreider 1 system, costs associated with needed capital upgrade expenses, and re-certification/permitting amendments.

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On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and accelerated the Pennvest Loan and demanded that PA1 pay \$8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA1 did not make the payment and does not have the resources to make the payments demanded by Pennvest. PA1 has commenced discussions and negotiations with Pennvest concerning this matter but Pennvest has rejected PA1's proposal made during the fall of 2014. Neither party has any formal proposal on the table as of the date of this report, and only sporadic communication continues regarding the matters involved. It is not possible at this date to predict the outcome of such negotiations/discussions, but the Company believes that a loan modification agreement may be reached in the future when a more robust market for nutrient reductions develops in Pennsylvania, of which there is no assurance. PA1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

During August 2012, the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 system met the technology guaranty standards which were incorporated in the Pennvest financing documents and, as a result, the Pennvest Loan is now solely an obligation of PA1.

The economics (potential revenues, profitability and continued operation) of the Kreider 1 System are based almost entirely on the long term sale of nutrient (nitrogen and/or phosphorus) reduction credits to meet the requirements of the Chesapeake Bay environmental clean-up.

On May 5, 2016, Bion PA2 LLC (PA2) executed a stand-alone joint venture agreement with Kreider Farms covering all matters related to development and operation of a system to treat the waste streams from Kreider s poultry facilities (Kreider 2). The Kreider projects are owned and operated by Bion through separate subsidiaries, in which Kreider has the option to acquire a noncontrolling interest. Substantial capital (equity and/or debt) has been and will continue to be expended on these projects. Additional funds will be required for continuing operations and additional capital expenditures at Kreider 1 until sufficient revenues can be generated, of which there is no assurance. The Company anticipates that the Kreider 1 project will generate revenue primarily from the sale of nutrient reduction (and/or other) environmental credits. A portion of Bion s research and development activities has taken place at the Kreider 1 facility.

Kreider 2 (not yet constructed) (and most future projects) will be developed using Bion s 3G Tech to recover substantial marketable nutrients and renewable energy to supplement its revenue from nutrient reductions. The Company believes that the proceeds from multiple byproduct streams including i) feed additives and/or fertilizer (organic and non-organic) and ii) renewable energy (and related credits) can be reasonably projected to generate, in aggregate, revenue streams that, in certain circumstances, may approach (or exceed) 50% of total revenues from such project(s). To date the market for long-term nutrient reduction credits in Pennsylvania has been very slow to develop and the Company s activities have been negatively affected by the lack of such development.

Kreider 2 development work and technology evaluation, including execution of a stand-alone joint venture agreement, amended credit certification and discussions with potential joint venture partners, continues, which project primarily relates to treatment of the wastes from Kreider s poultry operations. Assuming there are positive developments related to the market for nutrient reductions in Pennsylvania, the Company intends to pursue development, design and construction of the Kreider 2 poultry waste/renewable energy project with a goal of achieving operational status during calendar year 2017. However, as discussed above, this project faces challenges related to the current limits of the existing nutrient reduction market and funding of technology-based, verifiable agricultural nutrient reductions which are anticipated to constitute the largest share of its revenues.

A significant portion of Bion's activities concern efforts with private and public stakeholders (at local and state level) in Pennsylvania (and other Chesapeake Bay and Midwest and Great Lakes states) and at the federal level (the Environmental Protection Agency (EPA) and the Department of Agriculture (USDA) (and other executive departments) and Congress) to establish appropriate public policies which will create regulations and funding mechanisms that foster installation of the low cost environmental solutions that Bion (and others) can provide through clean-up of agricultural waste streams. The Company anticipates that such efforts will continue in Pennsylvania, other Chesapeake Bay watershed states throughout the next 12 months and in various additional states thereafter.

Going concern and management's plans:

The consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has not generated significant revenues and has incurred net losses (including significant non-cash expenses) of approximately \$4,522,000 and \$5,642,000 during the years ended June 30, 2016 and 2015, respectively. At June 30, 2016, the Company has a working capital deficit and a stockholders' deficit of approximately \$10,602,000 and \$13,938,000, respectively. These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability or classification of assets or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern. The following paragraphs describe management's plans with regard to these conditions.

The Company continues to explore sources of additional financing (including potential agreements with strategic partners both financial and ag-industry) to satisfy its current and future operating and capital expenditure requirements as it is not currently generating any significant revenues.

During the years ended June 30, 2016 and 2015, the Company received total proceeds of \$760,604 and \$1,000,940, respectively, from the sale of its debt and equity securities. Proceeds during the 2016 and 2015 fiscal years have been lower than in earlier years which reduction has negatively impacted the Company's business development efforts.

During fiscal years 2016 and 2015, the Company experienced greater difficulty in raising equity funding than in the prior years. As a result, the Company faced, and continues to face, significant cash flow management challenges due to working capital constraints. To partially mitigate these working capital constraints, the Company's core senior management and several key employees and consultants have been deferring (and continue to defer) all or part of their cash compensation and/or are accepting compensation in the form of securities of the Company (Notes 6 and 8) and members of the Company's senior management have made loans to the Company. Additionally, the Company made reductions in its personnel during the year ended June 30, 2014. The constraint on available resources has had, and continues to have, negative effects on the pace and scope of the Company's efforts to develop its business. The Company has had to delay payment of trade obligations and has had to economize in many ways that have potentially negative consequences. If the Company does not have greater success in its efforts to raise needed funds during the 2017 fiscal year (and subsequent periods), management will need to consider deeper cuts (including additional personnel cuts) and curtailment of operations (including possibly Kreider 1 operations) and/or research and development activities.

The Company will need to obtain additional capital to fund its operations and technology development, to satisfy existing creditors, to develop Projects (including Integrated Projects) (including the Kreider 2 facility) and CAFO Retrofit waste remediation systems and to continue to operate the Kreider 1 facility. The Company anticipates that it will seek to raise from \$2,500,000 to \$50,000,000 or more debt and/or equity through joint ventures, strategic partnerships and/or sale of its equity securities (common, preferred and/or hybrid) and/or debt (including convertible) securities, and/or through use of rights and/or warrants (new and/or existing) during the next twelve months. However, as discussed above, there is no assurance, especially in light of the difficulties the Company has experienced in recent periods and the extremely unsettled capital markets that presently exist (especially for small companies), that the Company will be able to obtain the funds that it needs to stay in business, complete its technology development or to successfully develop its business and projects.

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There is no realistic likelihood that funds required during the next twelve months or in the periods immediately thereafter for the Company's basic operations and/or proposed projects will be generated from operations. Therefore, the Company will need to raise sufficient funds from external sources such as debt or equity financings or other potential sources. The lack of sufficient additional capital resulting from the inability to generate cash flow from operations and/or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. Further, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have a significantly dilutive effect on the Company's existing shareholders. All of these factors have been exacerbated by the extremely limited and unsettled credit and capital markets presently existing for small companies like Bion.

2.

SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bion Integrated Projects Group, Inc. (Projects Group), Bion Technologies, Inc., BionSoil, Inc., Bion Services, PA1, and PA2; and its 58.9% owned subsidiary, Centerpoint Corporation (Centerpoint). All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash:

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash.

Property and equipment:

Property and equipment are stated at cost and are depreciated, when placed into service, using the straight-line method over the estimated useful lives of the related assets, generally three to twenty years. The Company capitalizes all direct costs and all indirect incrementally identifiable costs related to the design and construction of its Integrated Projects. The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized based on the amount by which the carrying value of the assets or asset group exceeds its estimated fair value, and is recognized as a loss from operations.

Derivative Financial Instruments:

Pursuant to Accounting Standards Codification (ASC) Topic 815 Derivatives and Hedging (Topic 815), the Company reviews all financial instruments for the existence of features which may require fair value accounting and a related mark-to-market adjustment at each reporting period end. Once determined, the Company assesses these instruments as derivative assets or liabilities. The fair value of these instruments is adjusted to reflect the fair value at each reporting period end, with any increase or decrease in the fair value being recorded in results of operations as an adjustment to fair value of derivatives.

Warrants:

The Company has issued warrants to purchase common shares of the Company. Warrants are valued using a fair value based method, whereby the fair value of the warrant is determined at the warrant issue date using a market-based option valuation model based on factors including an evaluation of the Company's value as of the date of the issuance, consideration of the Company's limited liquid resources and business prospects, the market price of the Company's stock in its mostly inactive public market and the historical valuations and purchases of the Company's warrants. When warrants are issued in combination with debt or equity securities, the warrants are valued and accounted for based on the relative fair value of the warrants in relation to the total value assigned to the debt or equity securities and warrants combined.

F-11

Concentrations of credit risk:

The Company's financial instruments that are exposed to concentrations of credit risk consist of cash. The Company's cash is in demand deposit accounts placed with federally insured financial institutions and selected brokerage accounts. Such deposit accounts at times may exceed federally insured limits. The Company has not experienced any losses on such accounts.

Noncontrolling interests:

In accordance with ASC 810, Consolidation, the Company separately classifies noncontrolling interests within the equity section of the consolidated balance sheets and separately reports the amounts attributable to controlling and noncontrolling interests in the consolidated statements of operations. In addition the noncontrolling interest continues to be attributed its share of losses even if that attribution results in a deficit noncontrolling interest balance.

Fair value measurements:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The Company uses a fair value hierarchy that has three levels of inputs, both observable and unobservable, with use of the lowest possible level of input to determine fair value.

Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 assets and liabilities whose significant value drivers are unobservable.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company's market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those instances, the fair value measurement is required to be classified using the lowest level of input that is significant to the fair value measurement. Such determination requires significant management judgment.

The fair value of cash, subscription receivable and accounts payable approximates their carrying amounts due to their short-term maturities. The fair value of the loan payable approximates its carrying amount as it bears interest at rates commensurate with market rates. The fair value of the redeemable preferred stock approximates its carrying value due to the dividends accrued on the preferred stock which are reflected as part of the redemption value. The fair value of deferred compensation and convertible notes payable - affiliates are not practicable to estimate due to the related party nature of the underlying transactions.

Revenue Recognition:

Revenues are generated from the sale of nutrient reduction credits. The Company recognizes revenue from the sale of nutrient credits when there is persuasive evidence that an arrangement exists, when title has passed, the price is fixed or determinable, and collection is reasonably assured.

The Company expects that technology license fees will be generated from the licensing of Bion's integrated system. The Company anticipates that it will charge its customers a non-refundable up-front technology license fee, which will be recognized over the estimated life of the customer relationship. In addition, any on-going technology license fees will be recognized as earned based upon the performance requirements of the agreement. Annual waste treatment fees will be recognized upon receipt. Revenues, if any, from the Company's interest in Integrated Projects will be recognized when the entity in which the Integrated Project has been developed recognizes such revenue.

F-12

Stock-based compensation:

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements and the cost is measured based on the grant date fair value of the award. The stock option compensation expense is recognized over the period during which an employee is required to provide service in exchange for the award (the requisite service period). The Company utilizes the Black-Scholes option-pricing model to determine fair value. Key assumptions of the Black-Scholes option-pricing model include applicable volatility rates, risk-free interest rates and the instrument's expected remaining life. These assumptions require significant management judgment.

Income taxes:

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases, as well as net operating losses.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets or liabilities of a change in tax rates is recognized in the period in which the tax change occurs. A valuation allowance is provided to reduce the deferred tax assets by 100%, since the Company believes that at this time it is more likely than not that the deferred tax asset will not be realized.

The Company is no longer subject to U.S. federal and state tax examinations for fiscal years before 2009. Management does not believe there will be any material changes in the Company's unrecognized tax positions over the next 12 months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of June 30, 2016, there were no penalties or accrued interest amounts associated with any unrecognized tax benefits, nor was any interest expense recognized during the years ended June 30, 2016 and 2015.

Loss per share:

Basic loss per share amounts are calculated using the weighted average number of shares of common stock outstanding during the period. Diluted loss per share assumes the conversion, exercise or issuance of all potential common stock instruments, such as options or warrants, unless the effect is to reduce the loss per share. During years ended June 30, 2016 and 2015, the basic and diluted loss per share was the same, as the impact of potential dilutive common shares was anti-dilutive.

The following table represents the warrants, options and convertible securities excluded from the calculation of diluted loss per share:

June 30,

2016

June 30,

2015

Warrants

8,112,114

9,532,189

Options

4,225,537

4,413,870

Convertible
debt

7,988,445

6,056,270

Convertible
preferred
stock

15,000

14,000

The following is a reconciliation of the denominators of the basic loss per share computations for the years ended June 30, 2016 and 2015:

Year

ended

June 30,

2016

Year

ended

June 30,

2015

Shares issued
beginning of
period

22,089,650

19,576,619

Shares held by
subsidiaries
(Note 9)

(704,309)

(704,309)

S h a r e s
outstanding
beginning of
period

21,385,341

18,872,310

W e i g h t e d
average shares
for fully

vested stock
bonuses

600,000

675,000

W e i g h t e d
average shares
issued

d u r i n g t h e
period

759,940

998,146

Basic weighted
average shares

end of period

22,745,281

20,545,456

Reclassifications:

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation including the reclassification of accrued interest related to the Pennvest Loan from accounts payable and accrued expenses into loan payable and accrued interest.

Use of estimates:

In preparing the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements:

The Company continually assesses any new accounting pronouncements to determine their applicability. When it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequences of the change to its financial statements and assures that there are proper controls in place to ascertain that the Company's financial statements properly reflect the

change.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 Revenue from Contracts from Customers, which supersedes the revenue recognition requirements in Revenue Recognition (Topic 605), and requires entities to recognize revenue in a way that depicts the transfer of potential goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to the exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the new standard and assessing the potential impact on its operations and financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements Going Concern: Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The guidance is effective for annual periods ending after December 15, 2016, and interim periods thereafter, early application is permitted. The the adoption of ASU No. 2014-15 did not have a material impact on the Company's financial statements.

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3.

PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

June 30,

2016

June 30,

2015

Machinery and
equipment

\$ 2,222,670

\$ 2,923,577

Buildings and
structures

401,470

1,385,125

Computers and
office equipment

173,313

175,248

2,797,453

4,483,950

Less accumulated
depreciation

(2,793,194)

(2,506,731)

\$ 4,259

\$ 1,977,219

Management reviewed property and equipment for impairment as of June 30, 2016 and determined that the carrying amount of property and equipment related to the Kreider 1 project exceeded its estimated future undiscounted cash flows based on certain assumptions regarding timing, level and probability of revenues from sales of nutrient reduction credits and potentially needed capital expenditures and it was also determined that the salvage value of the system components will be offset by contractual decommissioning obligations. Kreider 1 was measured at estimated fair value on a non-recurring basis using level 3 inputs, which resulted in an impairment of \$1,684,562 of the property and equipment for the year ended June 30, 2016. As of June 30, 2016, the net book value of Kreider 1 was zero. The Company also recorded an impairment of \$1,750,000 for the year ended June 30, 2015.

Depreciation expense was \$293,577 and \$623,934 for the years ended June 30, 2016 and 2015, respectively.

4.

PROMISSORY NOTE RECEIVABLE:

During the year ended June 30, 2016, the Company received an interest bearing, secured promissory note for \$105,000. The promissory note accrued interest at 4% per annum, was collateralized, and was payable on January 31, 2016. The promissory note receivable was issued as consideration for an unaffiliated investor's subscription agreement to exercise warrants into 100,000 restricted common shares of the Company's common stock at \$1.05 per share. During January 2016, the Company received a \$35,000 principal payment and entered into a new agreement with the borrowers which extended the maturity date of the remaining principal and interest until June 15, 2016. All the other terms of the original agreement remained unchanged. During June 2016, the Company received an additional \$10,000 principal payment and entered into a new agreement with the borrowers which extended the maturity date of the remaining principal and interest until September 1, 2016. All the other terms of the original agreement remained unchanged. On June 30, 2016, the Company and the borrowers agreed to cancel the existing promissory note with a remaining principal balance of \$60,000 and interest of \$2,727 resulting in a net cancellation of 57,142 previously issued but not outstanding restricted common shares.

5.

NOTES PAYABLE - AFFILIATES:

During the year ended June 30, 2015, the Company entered into promissory notes (FY2015 Promissory Notes), with effective dates of January 1, 2015, for initial principal amounts of \$395,277, \$15,956 and \$80,764, with Dominic Bassani (Bassani), the Company's Chief Executive Officer (CEO), Edward Schafer (Schafer), the Company's Vice Chairman, and a major shareholder, (Shareholder), respectively. The FY2015 Promissory Notes accrued interest at 4% per annum and were payable on December 31, 2015. Effective September 8,

2015, the Company entered into new convertible promissory notes (September 2015 Convertible Notes) with Bassani, Schafer and Shareholder which replaced the FY2015 Promissory Notes. The initial principal balances of the September 2015 Convertible Notes were \$405,831, \$16,382 and \$82,921, respectively. The new convertible promissory notes bear interest at 4% per annum, have maturity dates of December 31, 2017 and may be converted (at the sole election of the noteholders) into restricted common shares of the Company at a conversion price of \$0.60 per share (Note 8). Interest expense related to the September 2015 Convertible Notes was \$16,385 for the year ended June 30, 2016.

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6.

DEFERRED COMPENSATION:

The Company owes deferred compensation to various employees, former employees and consultants totaling \$1,436,595 as of June 30, 2016. Included in the deferred compensation balances as of June 30, 2016, are \$573,818, \$168,302 and \$115,073 owed Bassani, Mark A. Smith (Smith), the Company s President, and Schafer, respectively, pursuant to extension agreements effective January 1, 2015, whereby unpaid compensation earned after January 1, 2015, accrues interest at 4% per annum and can be converted into shares of the Company s common stock at the election of the employee during the first five calendar days of any month. The conversion price shall be the average closing price of the Company s common stock for the last 10 trading days of the immediately preceding month. During the year ended June 30, 2016, Smith converted \$82,861 of deferred compensation into 99,159 shares of the Company s common stock at conversion prices between \$0.76 and \$0.96 per share. Smith also utilized deferred compensation of \$2,355 to exercise warrants which resulted in the issuance of 6,280 shares of the Company s common stock. The Company also owes various consultants, pursuant to various agreements, for deferred compensation of \$337,918 as of June 30, 2016 with similar conversion terms as those described above for Bassani, Smith and Schafer, with the exception that the interest accrues at 3% per annum. The Company also owes a former employee and a current employee deferred compensation of \$168,000 and \$984, respectively, which is convertible into 226,168 and 1,132 shares, respectively, of the Company s common stock as of June 30, 2016 and, a former employee \$72,500, which is not convertible and is non-interest bearing.

7.

LOAN PAYABLE:

As of June 30, 2016, PA1, the Company s wholly-owned subsidiary, owes \$8,563,662 under the terms of the Pennvest Loan related to the construction of the Kreider 1 System including accrued interest and late charges totaling \$809,662. The terms of the Pennvest Loan provide for funding of up to \$7,754,000 which is to be repaid by interest-only payments for three years, followed by an additional ten-year amortization of principal. The Pennvest Loan accrues interest at 2.547% per annum for years 1 through 5 and 3.184% per annum for years 6 through maturity. The Pennvest Loan required minimum annual principal payments of approximately \$2,001,000 in fiscal years 2013 through 2016, and \$741,000 in fiscal year 2017, \$760,000 in fiscal year 2018, \$771,000 in fiscal year 2019, \$794,000 in fiscal year 2020, \$819,000 in fiscal year 2021 and \$1,867,000 thereafter. The Pennvest Loan is collateralized by the Kreider 1 System and by a pledge of all revenues generated from Kreider 1 including, but not limited to, revenues generated from nutrient reduction credit sales and by-product sales. In addition, in consideration for the excess credit risk associated with the project, Pennvest is entitled to participate in the profits from Kreider 1 calculated on a net cash flow basis, as defined. The Company has incurred interest expense related to the Pennvest Loan of \$197,494 for both of the years ended June 30, 2016 and 2015, respectively. Based on the limited development of the depth and breadth of the Pennsylvania nutrient reduction credit market to date, PA1 has commenced negotiations with Pennvest related to forbearance and/or re-structuring the obligations under the Pennvest Loan. In the context of such negotiations, PA1 has elected not to make interest payments to Pennvest on the Pennvest Loan since January 2013. Additionally, the Company has not made any principal payments, which were to begin in fiscal 2013, and, therefore, the Company has

classified the Pennvest Loan as a current liability as of June 30, 2016.

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and has accelerated the Pennvest Loan and demanded that PA1 pay \$8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA1 did not make the payment and does not have the resources to make the payment demanded by Pennvest. PA1 has engaged in on/off discussions and negotiations with Pennvest concerning this matter but no such discussions/negotiations are currently active. Neither party has any formal proposal on the table as of the date of this report. It is not possible at this date to predict the outcome of such negotiations, but the Company believes it is possible that an agreement may yet be reached that will result in a viable loan modification. Subject to the results of the negotiations with Pennvest and pending development of a more robust market for nutrient reductions in Pennsylvania, PA1 and Bion will continue to evaluate various options with regard to Kreider 1 over the next 30-180 days.

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In connection with the Pennvest Loan financing documents, the Company provided a technology guaranty regarding nutrient reduction performance of Kreider 1 which was structured to expire when Kreider 1's nutrient reduction performance had been demonstrated. During August 2012 the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 System had surpassed the requisite performance criteria and that the Company's technology guaranty was met. As a result, the Pennvest Loan is solely an obligation of PA1.

8.

CONVERTIBLE NOTES PAYABLE - AFFILIATES:

January 2015 Convertible Notes

The January 2015 Convertible Notes accrue interest at 4% per annum and are due and payable on December 31, 2017. The January 2015 Convertible Notes (including accrued interest, plus all future deferred compensation), are convertible, at the sole election of the noteholder, into Units consisting of one share of the Company's common stock and one quarter warrant to purchase a share of the Company's common stock, at a price of \$0.50 per Unit until December 31, 2020. The warrant contained in the Unit shall be exercisable at \$1.00 per share until December 31, 2020. The original conversion price of \$0.50 per Unit approximated the fair value of the Units at the date of the agreements; therefore no beneficial conversion feature exists. Management evaluated the terms and conditions of the embedded conversion features based on the guidance of ASC 815-15 Embedded Derivatives to determine if there was an embedded derivative requiring bifurcation. An embedded derivative instrument (such as a conversion option embedded in the deferred compensation) must be bifurcated from its host instruments and accounted for separately as a derivative instrument only if the risks and rewards of the embedded derivative instrument are not clearly and closely related to the risks and rewards of the host instrument in which it is embedded. Management concluded that the embedded conversion feature of the deferred compensation was not required to be bifurcated because the conversion feature is clearly and closely related to the host instrument, and because of the Company's limited trading volume

that indicates the feature is not readily convertible to cash in accordance with ASC 815-10, Derivatives and Hedging .

As of June 30, 2016, the January 2015 Convertible Note balances, including accrued interest, owed Bassani, Smith and Schafer were \$1,552,178, \$806,025 and \$400,925, respectively. During the years ended June 30, 2016 and 2015, the Company recorded interest expense of \$104,419 and \$51,354, respectively, related to the January 2015 Convertible Notes.

September 2015 Convertible Notes

During the year ended June 30, 2016, the Company entered into September 2015 Convertible Notes with Bassani, Schafer and Shareholder which replaced the previously issued FY2015 Promissory Notes. The initial principal balances of the September 2015 Convertible Notes were \$405,831, \$16,382 and \$82,921, respectively. The September 2015 Convertible Notes bear interest at 4% per annum, have maturity dates of December 31, 2017 and may be converted at the sole election of the noteholders into restricted common shares of the Company at a conversion price of \$0.60 per share. As the conversion price of \$0.60 approximated the fair value of the common shares at the date of the September 2015 Convertible Notes, no beneficial conversion feature exists. The balances of the September 2015 Convertible Notes as of June 30, 2016, including accrued interest, are \$418,995, \$16,913 and \$85,611, respectively. The Company recorded interest expense related to the 2015 Convertible Notes of \$16,385 and nil for the years ended June 30, 2016 and 2015, respectively.

9.

STOCKHOLDERS' EQUITY:

Series B Preferred stock:

At July 1, 2014, the Company had 200 shares of Series B redeemable convertible Preferred stock outstanding with a par value of \$0.01 per share, convertible at the option of the holder at \$2.00 per share, with dividends accrued and payable at 2.5% per quarter. The Series B Preferred stock is mandatorily redeemable at \$2.00 per share by the Company three years after issuance and accordingly was classified as a liability. The 200 shares have reached their maturity date, but due to the cash constraints of the Company have not been redeemed.

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During the years ended June 30, 2016 and 2015, the Company declared dividends of \$2,000 and \$2,000 respectively. At June 30, 2016, accrued dividends payable are \$10,000. The dividends are classified as a component of operations as the Series B Preferred stock is presented as a liability in these financial statements. For the fiscal year ended June 30, 2015 these amounts were presented differently but the June 30, 2015 financial statements were revised even though such revision previously was and continues to be immaterial to the prior year financial statements.

Common stock:

Holders of common stock are entitled to one vote per share on all matters to be voted on by common stockholders. In the event of liquidation, dissolution or winding up of the Company, the holders of common stock are entitled to share in all assets remaining after liabilities have been paid in full or set aside and the rights of any outstanding preferred stock have been satisfied. Common stock has no preemptive, redemption or conversion rights. The rights of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of any outstanding series of preferred stock or any series of preferred stock the Company may designate in the future.

Centerpoint holds 704,309 shares of the Company's common stock. These shares of the Company's common stock held by Centerpoint are for the benefit of its shareholders without any beneficial interest. The Company accounts for these shares similar to treasury stock.

During the year ended June 30, 2015, the Company issued 45,647 shares of the Company's common stock at prices ranging from \$0.43 to \$1.22 per share for services valued at \$41,028, in the aggregate, to consultants, a former employee and two employees. The Company also issued 75,000 shares of fully vested bonus shares granted to Smith in fiscal year 2013 which were expensed at grant date.

During the year ended June 30, 2015, the Company issued 130,953 shares of the Company's common stock upon Bassani's fiscal year 2014 election to convert \$110,000, of his convertible notes payable affiliate into units at a conversion price of \$0.84 per unit.

During the year ended June 30, 2015, the Company sold 35,000 shares of the Company's restricted common stock at \$0.75 per share for total proceeds of \$26,250. The Company also issued 40,000 shares of the Company's restricted common stock upon receipt of its subscription receivable of \$30,000 during the year ended June 30, 2015.

During the year ended June 30, 2015, the Company entered into subscription agreements to sell units for \$0.50 each, with each unit consisting of one share of the Company's restricted common stock and one warrant to purchase one half of a share of the Company's restricted common stock for \$0.75 per share until December 31, 2016 and pursuant thereto, the Company issued 1,800,000 units for total proceeds of \$900,000, which included Smith's purchase of 12,561 units by converting \$6,280 of convertible notes. During the year ended June 30, 2015 cash commissions of \$61,522 were paid to brokers related to the unit offering in addition to the issuance of 123,044 broker's warrants to purchase the Company's common stock at \$0.75 per share until June 30, 2016. The broker's warrants were valued at \$0.05 per warrant and \$6,152 was recorded to interest expense during the year ended June 30, 2015. The Company allocated the proceeds from the shares and the warrants based upon their relative fair values, using the share price on the day each of the subscription agreements were entered into and the fair value of the warrants, which was determined to be \$0.05 per warrant. As a result, \$34,826 was allocated to the warrants and \$865,174 was allocated to the shares, and both were recorded as additional paid in capital.

During the year ended June 30, 2015, the Company entered into subscription agreements to exercise certain warrants with expiry dates on or before December 31, 2015, into restricted shares of the Company's common stock at a reduced exercise price of \$1.05, for the period from May 13, 2015 through June 30, 2015. The Company extended the offering for an additional 15 days to July 15, 2015 and therefore any warrants which would have expired on June 30, 2015 were automatically extended to July 15, 2015. As the \$1.05 exercise price was a reduction from the original exercise prices of the warrants, and due to the limited time

in which the warrant holders had to subscribe, the reduction in the offering price was accounted for as an inducement and a conversion inducement of \$9,593 was recorded. Pursuant to the offering, 71,133 warrants were exercised and 71,133 shares of the Company's restricted common stock were issued resulting in cash proceeds of \$74,690 for the year ended June 30, 2015. The Company had entered into a subscription agreement to exercise 12,500 warrants at \$1.05 for which a subscription receivable of \$13,125 was recorded at June 30, 2015.

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During the year ended June 30, 2015, Smith elected to convert \$106,099 of his convertible notes at \$0.45 per unit into 235,775 units of the Company, consisting of one share of the Company's common stock and one warrant to purchase the Company's common stock at a price of \$1.50 until December 31, 2020.

During the year ended June 30, 2015, Smith and various consultants elected to convert \$80,780 of deferred compensation into 99,523 shares of the Company's common stock at conversion rates ranging from \$0.72 to \$1.24 per share.

During the year ended June 30, 2016, the Company issued 242,034 shares of the Company's common stock at prices ranging from \$0.76 to \$1.15 per share for services valued at \$228,558, in the aggregate, to consultants and employees, including \$69,000 expensed for 75,000 fully vested bonus shares to Smith that were issued in January 2016.

During the year ended June 30, 2016, the Company issued 12,500 shares of the Company's restricted common stock upon receipt of its subscription receivable of \$13,125 for the exercise of 12,500 warrants.

During the year ended June 30, 2016, the Company entered into subscription agreements to exercise certain warrants with expiry dates on or before December 31, 2015, into restricted shares of the Company's common stock at a reduced exercise price of \$1.05, for the period from June 30, 2015 through July 15, 2015. Pursuant to the offering, 265,894 warrants were exercised and 265,894 shares of the Company's restricted common stock were issued resulting in cash proceeds of \$174,189 and receipt of a \$105,000 interest bearing, collateralized promissory note. During January 2016, the Company received a \$35,000 principal payment and entered into a new agreement with the borrowers which extended the maturity date of the remaining principal and interest until June 15, 2016. All the other terms of the original agreement remain unchanged. During June 2016, the Company received a \$10,000 principal payment and entered into a new agreement with the borrowers which extended the maturity date of the remaining principal and interest until September 1, 2016. All the other terms of the original agreement remain unchanged. On June 30, 2016, the Company and the borrowers agreed to cancel the existing promissory note with a remaining principal balance of \$60,000 and interest of \$2,727 resulting in a net cancellation of 57,142 previously issued but not outstanding restricted common shares.

During the year ended June 30, 2016, the Company entered into subscription agreements to sell units for \$0.80 per unit, with each unit consisting of one share of the Company's restricted common stock and one warrant to purchase one half of a share of the Company's restricted common stock for \$1.10 per share until June 30, 2017 and pursuant thereto, the Company issued 393,698 units for total proceeds of \$314,957. During the year ended June 30, 2016, cash commissions of \$24,496 were paid to brokers related to the unit offering. The Company allocated the proceeds from the shares and the warrants based upon their relative fair values, using the share price on the day each of the subscription agreements were entered into and the fair value of the warrants, which was determined to be \$0.05 per warrant. As a result, \$8,041 was allocated to the warrants and \$306,916 was allocated to the shares, and both were recorded as additional paid in capital.

During the year ended June 30, 2016, the Company entered into subscription agreements with various warrant holders, whereby the warrant holders elected to exercise 284,445 warrants at an exercise price of \$0.75 and 284,445 shares of the Company's common stock were issued resulting in cash proceeds of \$213,333.

During the year ended June 30, 2016, Smith exercised 6,280 warrants at an exercise price of \$0.75. The warrants were entitled to an exercise bonus of 50% of the exercise price which resulted in a reduced exercise price of \$0.375 per warrant. Smith elected to convert \$2,355 of deferred compensation in exchange for the issuance of 6,280 shares of the Company's common stock.

During the year ended June 30, 2016, Smith and various consultants elected to convert \$82,861 and \$200,877 of deferred compensation, respectively, into 99,159 and 236,539 shares, respectively, of the Company's common stock at conversion rates ranging from \$0.76 to \$1.15 per share.

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Warrants:

As of June 30, 2016, the Company had approximately 8.1 million warrants outstanding, with exercise prices from \$0.75 to \$3.00 and expiring on various dates through December 31, 2020.

The weighted-average exercise price for the outstanding warrants is \$1.24, and the weighted-average remaining contractual life as of June 30, 2016 is 3.9 years.

During the year ended June 30, 2015, warrants to purchase 67,500 shares of the Company's common stock at \$0.85 per share were issued pursuant to the promissory notes entered into by Bassani and Shareholder. The warrants were determined to have a fair value of \$0.10 per warrant and expire on December 31, 2018. The Company recorded interest expense of \$6,750 related to the warrant issuances.

During the year ended June 30, 2015, the Company issued warrants to purchase 900,000 shares of the Company's restricted common stock for \$0.75 per share until December 31, 2016 in connection with the sale of 1,800,000 units. The Company also issued 123,044 warrants to purchase shares of the Company's restricted common stock for \$0.75 per share until June 30, 2016 to brokers as commission related to the sale of the units. The warrants were deemed to have a fair value of \$0.05 per warrant and the Company recorded interest expense of \$6,152 related to the warrant issuances.

In conjunction with the execution of Bassani and Smith's extension agreements (Note 12), 3,906,953 and 1,883,324 warrants issued to Bassani and Smith (and their donees), respectively, were extended until December 31, 2020 and certain warrants with an exercise price in excess of \$1.50 were reduced to \$1.50. The Company recorded non-cash compensation expense related to the modification of the warrants of \$223,589 for the year ended June 30, 2015.

During the year ended June 30, 2015, the Company agreed to extend the expiration date of 985,833 warrants owned by various individuals which were scheduled to expire on December 31, 2014 to March 31, 2015. The Company recorded expense related to the modification of the warrants of \$986 for the year ended June 30, 2015.

During the year ended June 30, 2015, the Company agreed to extend the expiration date of 1,260,833 warrants owned by various individuals which were scheduled to expire between March 31, 2015 and April 30, 2015 to June 30, 2015. The Company recorded interest expense of \$6,061 related to the modification of the warrants for the year ended June 30, 2015.

During the year ended June 30, 2015, the Company entered into subscription agreements to exercise certain warrants with expiry dates on or before December 31, 2015, into restricted shares of the Company's common stock at a reduced exercise price of \$1.05, for the period from May 13, 2015 through June 30, 2015. The Company extended the offering for an additional 15 days to July 15, 2015 and therefore any warrants which would have expired on June 30, 2015 were automatically extended to July 15, 2015. As a result of the offering, 71,133 warrants were exercised and 71,133 shares of the Company's restricted common stock were issued resulting in cash proceeds of \$74,690 for the year ended June 30, 2015.

During the year ended June 30, 2016, warrants to purchase 1,047,806 shares of common stock of the Company at prices between \$2.25 and \$3.10 per share expired.

During the year ended June 30, 2016, the Company entered into subscription agreements to exercise certain warrants with expiry dates on or before December 31, 2015, into restricted shares of the Company's common stock at a reduced exercise price of \$1.05, for the period from July 1, 2015 through July 15, 2015. As a result of the offering, 265,894 warrants were exercised and 265,894 shares of the Company's restricted common stock were issued resulting in cash proceeds of \$174,189 and receipt of a collateralized promissory note receivable for \$105,000. During the year ended June 30, 2016, the Company received a total of \$45,000 in principal payments. On June 30, 2016, the Company and the borrowers agreed to cancel the existing promissory note with a remaining principal balance of \$60,000 and interest of \$2,727 resulting in a net cancellation of 57,142 previously issued but not outstanding restricted common shares.

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During the year ended June 30, 2016, the Company entered into subscription agreements with various warrant holders, whereby the warrant holders elected to exercise 284,445 warrants at an exercise price of \$0.75 and 284,445 shares of the Company's common stock were issued resulting in cash proceeds of \$213,333. At June 30, 2016 the Company had a subscription agreement for the exercise of 10,000 warrants at an exercise price of \$0.75, resulting in a subscription receivable of \$7,500.

During the year ended June 30, 2016, Smith exercised 6,280 warrants at an exercise price of \$0.75. The warrants were entitled to an exercise bonus of 50% of the exercise price which resulted in a reduced exercise price of \$0.375 per warrant. Smith elected to convert \$2,355 of deferred compensation in exchange for the issuance of 6,280 shares of the Company's common stock.

Stock options:

The Company's 2006 Consolidated Incentive Plan, as amended (the "2006 Plan"), provides for the issuance of options (and/or other securities) to purchase up to 22,000,000 shares of the Company's common stock. Terms of exercise and expiration of options/securities granted under the 2006 Plan may be established at the discretion of the Board of Directors, but no option may be exercisable for more than ten years.

In November 2014, the Company entered into an agreement with a board member which entitled the board member to modifications of existing stock options resulting in the extension of certain expiration dates and resulting in incremental non-cash compensation expense of \$11,783 for the year ended June 30, 2015.

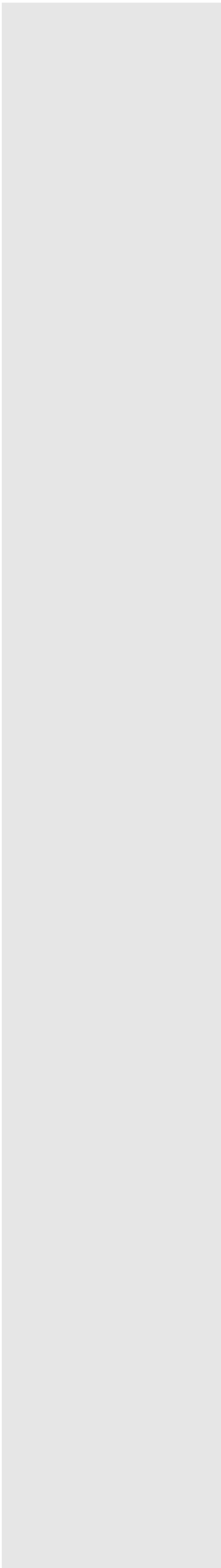
In February 2015, the Company entered into extension agreements with Bassani, Smith and Schafer (Note 12) which entitled them to modifications of existing stock options resulting in the extension of certain expiration dates and the reduction of certain exercise prices. The option modifications resulted in incremental non-cash compensation expense of \$357,500 for the year ended June 30, 2015.

During the year ended June 30, 2016, the Company approved the modification of existing stock options held by a board member which extended certain expiration dates and resulted in incremental non-cash compensation expense of \$42,550.

The Company recorded compensation expense related to employee stock options of \$99,553 and \$501,609 for the years ended June 30, 2016 and 2015, respectively. The Company granted 100,000 and 957,500 options during the years ended June 30, 2016 and 2015, respectively. During the years ended June 30, 2016 and 2015, 288,333 and 802,500 options expired, respectively.

The fair value of the options granted during the years ended June 30, 2016 and 2015 were estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

Weighted



Average,
June 30,
2016

Range,
June 30,
2016

Weighted
Average,
June 30,
2015

Range,
June 30,
2015

Volatility

74%
74%

76%
74%-80%

Dividend yield

-

-
-
-
Risk-free interest
rate

1.75%

1.75%

1.55%

0.51%-1.79%

Expected term
(years)

5

5

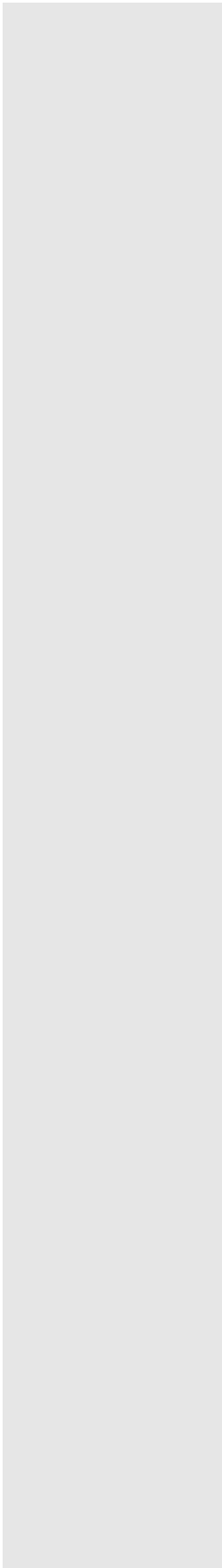
6.1

2-10

The expected volatility was based on the historical price volatility of the Company's common stock. The dividend yield represents the Company's anticipated cash dividend on common stock over the expected term of the stock options. The U.S. Treasury bill rate for the expected term of the stock options was utilized to determine the risk-free interest rate. The expected term of stock options represents the period of time the stock options granted are expected to be outstanding based upon management's estimates.

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A summary of option activity under the 2006 Plan for the two years ended June 30, 2016 is as follows:

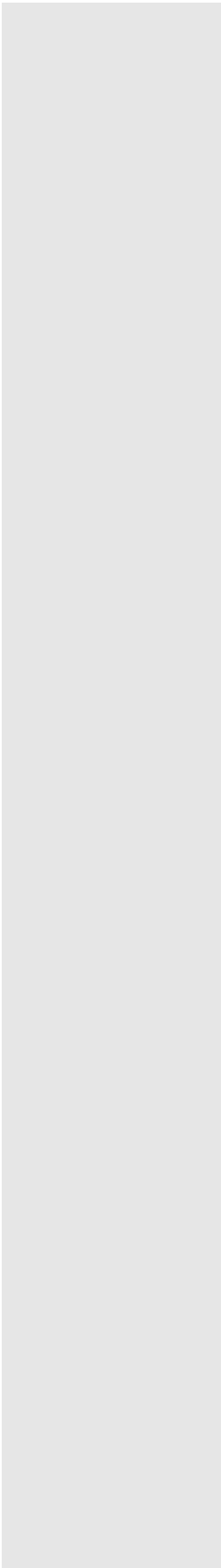


Options

Weighted-
Average
Exercise
Price

Weighted-
Average
Remaining
Contractual
Life

Aggregate
Intrinsic



Value

Outstanding
at July 1,
2014

4,258,870

\$2.81

3.2

-

Granted

957,500

0.74

Exercised

-

-

Forfeited

-

-

Expired
(802,500)

2.78

Outstanding
at June 30,
2015

4,413,870

\$1.88

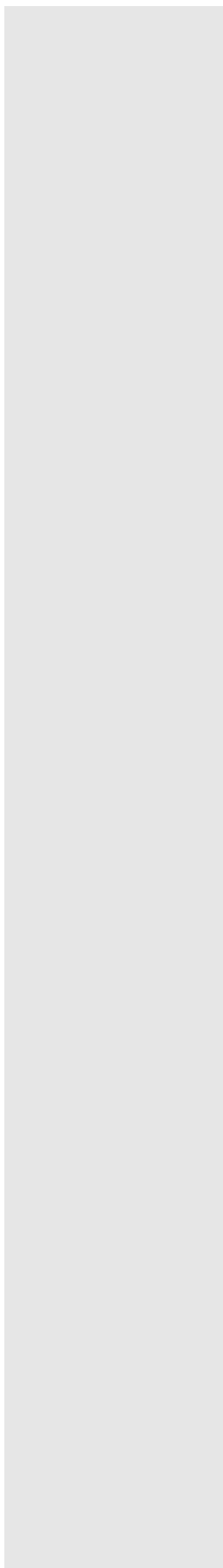
4.1

\$398,250

Granted

100,000

0.92



Exercised

-

-

Forfeited

-

-

Expired

(288,333)

2.90

Outstanding
at June 30,
2016

4,225,537

\$1.79

3.7

\$158,675

Exercisable at
June 30, 2016

4,175,537

\$1.80

3.6

\$144,175

The following table presents information relating to nonvested stock options as of June 30, 2016:

Options

Weighted Average

Grant-Date Fair

Value

Nonvested at July 1,
2015

100,000

\$ 0.76

Granted

100,000

0.59

Vested

(150,000)

(0.65)

Nonvested at June 30,
2016

50,000

\$ 0.76

The total fair value of stock options that vested during the years ended June 30, 2016 and 2015 was \$97,000 and \$476,075, respectively. As of June 30, 2016, the Company had \$9,913 of unrecognized compensation cost related to stock options.

Stock-based employee compensation charges in operating expenses in the Company's financial statements for the years ended June 30, 2016 and 2015 are as follows:

Year

ended

June 30,

2016

Year

ended

June 30,

2015

General and
administrative:

Fair value of
stock bonus
expensed

\$ 69,000

\$ -

Change in fair
value from
modification of

option terms

42,550

369,283

Change in fair
value from
modification of

warrant terms

-

223,917

Fair value of
stock options
expensed

66,092

378,937

Total

\$ 177,642

\$ 972,137

Research and
development:

Fair value of
stock options
expensed

\$ 33,461

\$ 122,672

Total

\$ 33,461

\$ 122,672

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The reconciliation between the expected federal income tax benefit computed by applying the Federal statutory rate to loss before income taxes and the actual benefit for taxes on loss for the years ended June 30, 2016 and 2015 is as follows:

Expected
income tax
benefit at
statutory rate

(13,000)

(19,000)

Change in
valuation
allowance

1,688,000

2,110,000

Income tax
benefit

\$ -

\$ -

The Company has net operating loss carry-forwards (NOLs) for tax purposes of approximately \$51,824,000 as of June 30, 2016. These NOLs expire on various dates through 2036.

The utilization of the NOLs may be limited under Section 382 of the Internal Revenue Code.

The Company's deferred tax assets for the years ended June 30, 2016 and 2015 are estimated as follows:

2016

2015

N O L s
noncurrent

\$ 19,705,000

\$ 19,083,000

S t o c k - b a s e d
compensation -
current

5,392,000

5,255,000

P r o p e r t y a n d
e q u i p m e n t
noncurrent

2,014,000

1,390,000

D e f e r r e d
compensation -
noncurrent

1,688,000

1,383,000

Gross deferred
tax assets

28,799,000

27,111,000

V a l u a t i o n
allowance

(28,799,000)

(27,111,000)

Net deferred tax
assets

\$ -

\$ -

The Company has provided a valuation allowance of 100% of its net deferred tax asset due to the uncertainty of generating future profits that would allow for the realization of such deferred tax assets.

11.

401(k) PLAN:

The Company has adopted the Bion Technologies, Inc. 401(k) Profit Sharing Plan and Trust (the 401(k) Plan), a defined contribution retirement plan for the benefit of its employees. The 401(k) Plan is currently a salary deferral only plan and at this time the Company does not match employee contributions. The 401(k) is open to all employees over 21 years of age and no service requirement is necessary.

12.

COMMITMENTS AND CONTINGENCIES:

Employment and consulting agreements:

Smith has held the positions of Director, President and General Counsel of Company and its subsidiaries under various agreements and terms since March 2003. During September 2014, Smith agreed to continue his employment agreement through April 15, 2015 and also agreed to continue to defer his temporarily reduced salary of \$14,000 per month until such date. On February 10, 2015, the Company executed an Extension Agreement with Smith pursuant to which Smith extended his employment with the Company to December 31, 2015 (with the Company having an option to extend his employment an additional six months). As part of the Extension Agreement, the balance of Smith's existing convertible note payable as of December 31, 2014, adjusted for conversions subsequent to that date, was replaced with a new convertible note with an initial principal amount of \$760,520 with terms that i) materially reduce the interest rate by 50% (from 8% to 4%), ii) increases the conversion price by 11% (from \$0.45 to \$0.50), iii) sets the conversion price at a fixed price so there can be no further reductions, iv) reduces the number of warrants received on conversion by 75% (from 1 warrant per unit to 1/4 per unit) and v) extends the maturity date to December 31, 2017.

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Additionally, pursuant to the Extension Agreement, Smith: i) will continue to defer his cash compensation (\$18,000 per month) until the Board of Directors re-instates cash payments to all employees and consultants who are deferring their compensation, ii) cancelled 150,000 contingent stock bonuses previously granted to him by the Company, iii) has been granted 150,000 new options which vested immediately and iv) outstanding options and warrants owned by Smith (and his donees) have been extended and had the exercise prices reduced to \$1.50 (if the exercise price exceeded \$1.50). In October 2015, the Company executed an Extension Agreement (FY2016 Extension Agreement) with Smith pursuant to which Smith extended his employment with the Company to June 30, 2016 (with Company having an option to extend his employment an additional six months). As part of the FY2016 Extension Agreement, Smith: i) will continue to defer his cash compensation (\$19,000 per month) until the Board of Directors re-instates cash payments, ii) has been granted 100,000 new options which vested immediately, and iii) has been granted 75,000 shares of common stock as an extension bonus which are immediately vested and were issued on January 5, 2016. As of July 1, 2016, Smith is working under a month to month contract extension until a longer term agreement is reached.

Since March 31, 2005, the Company has had various agreements with Brightcap and/or Bassani, through which the services of Bassani are provided. The Board appointed Bassani as the Company's CEO effective May 13, 2011. During the fiscal years 2012 and 2013, Bassani entered into extension agreements whereby he was awarded fully vested stock grants totaling 600,000 shares, 500,000 shares of which are to be issued January 15, 2016 and 100,000 shares are to be issued January 15, 2017. The stock grants were expensed in the years they were awarded as they are fully vested. On February 10, 2015, the Company executed an Extension Agreement with Bassani pursuant to which Bassani extended the term of his service to the Company to December 31, 2017, (with the Company having an option to extend the term an additional six months.) As part of the agreement, the Company's then existing loan payable, deferred compensation and convertible note payable to Bassani, were restructured into two promissory notes as follows: a) The sum of the cash loaned by Bassani to the Company of \$279,000 together with \$116,277 of unreimbursed expenses through December 31, 2014, were placed into a new promissory note with initial principal of \$395,277 which was due and payable on December 31, 2015 and now has been replaced with a September 2015 Convertible Note (Note 8). In connection with these sums and the new promissory note, Bassani was issued warrants to purchase 592,916 shares of the Company's common stock at a price of \$1.00 until December 31, 2020; and b) the remaining balances of the Company's accrued obligations to Bassani (\$1,464,545) were replaced with a new convertible promissory note with terms that compared with the largest prior convertible note obligation to Bassani: i) materially reduce the interest rate by 50% (from 8% to 4%), ii) increase the conversion price by 11% (from \$0.45 to \$0.50), iii) sets the conversion price at a fixed price so there can be no further reductions, iv) reduces the number of warrants received on conversion by 75% (from 1 warrant per unit to 1/4 per unit) and v) extends the maturity date to December 31, 2017 (Note 8). Additionally, pursuant to the Extension Agreement, Bassani i) will continue to defer his cash compensation (\$31,000 per month) until the Board of Directors re-instates cash payments to all employees and consultants who are deferring their compensation, ii) cancelled 250,000 contingent stock bonuses previously granted to him by the Company, iii) has been granted 450,000 new options which vested immediately and iv) outstanding options and warrants owned by Bassani (and his donees) have been extended and had the exercise prices reduced to \$1.50 (if the exercise price exceeded \$1.50).

On February 10, 2015, the Company entered into an agreement with Schafer pursuant to which Schafer will continue to provide services to the Company through December 31, 2015. Additionally, pursuant to the agreement, i) the exercise period of outstanding options and warrants owned by Schafer have been extended, and ii) 25,000 contingent stock bonuses previously granted to Schafer have been cancelled by the Company. In January 2016, Schafer agreed to extend his agreement with the Company through December 31, 2016. During June 2016, Schafer and the Company determined that due to other obligations Schafer's involvement with the Company during the 2016 fiscal year was less than anticipated and reduced his fiscal year 2016 compensation (all of which had been deferred) by \$160,000 and future compensation will be determined periodically based on evaluation by the board of directors.

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Contingent stock bonuses:

The Company has declared contingent deferred stock bonuses to its key employees and consultants at various times throughout the years. The stock bonuses are contingent upon the Company's stock price exceeding a certain target price per share, and the grantees still being employed by or providing services to the Company at the time the target prices are reached.

The Company's outstanding contingent stock bonuses as of June 30, 2016 are as follows:

Target Price per
share

\$5.00

\$10.00

\$20.00

Number of shares

50,000

40,000

27,500

Execution/exercise bonuses:

As part of agreements the Company entered into with Bassani and Smith effective May 15, 2013, they were each granted the following: a) a 50% execution/exercise bonus which shall be applied upon the effective date of the notice of intent to exercise (for options and warrants) or issuance event, as applicable, of any currently outstanding and/or subsequently acquired options, warrants and/or contingent stock bonuses owned by each (and/or their donees) as follows: i) in the case of exercise by payment of cash, the bonus shall take the form of reduction of the exercise price; ii) in the case of cashless exercise, the bonus shall be applied to reduce the exercise price prior to the cashless exercise calculations; and iii) with regard to contingent stock bonuses, issuance shall be triggered upon the Company's common stock reaching a closing price equal to 50% of currently specified price; and b) the right to extend the exercise period of all or part of the applicable options and warrants for up to five years (one year at a time) by annual payments of \$.05 per option or warrant to the Company on or before a date during the three months prior to expiration of the exercise period at least three business days before the end of the expiration period. Effective January 1, 2016 such annual payments to extend warrant exercise periods have been reduced to \$.01 per option or warrant.

During the year ended June 30, 2014, the Company extended execution/exercise bonuses with the same terms as described above to Schafer and to Jon Northrop, the Company's other board member.

As of June 30, 2016, the execution/exercise bonus was applicable to 3,045,000 of the Company's outstanding options and 6,753,219 of the Company's outstanding warrants.

Litigation:

On September 25, 2014, Pennvest exercised its right to declare the Pennvest Loan in default and has accelerated the Pennvest Loan and has demanded that PA1 pay \$8,137,117 (principal, interest plus late charges) on or before October 24, 2014. PA1 did not make the payment and does not have the resources to make the payment demanded by Pennvest. During August 2012, the Company provided Pennvest (and the PADEP) with data demonstrating that the Kreider 1 system met the technology guaranty standards which were incorporated in the Pennvest financing documents and, as a result, the Pennvest Loan is now solely an obligation of PA1. No litigation has commenced related to this matter but such litigation is likely if negotiations do not produce a resolution (Notes 1 and Note 7).

The Company currently is not involved in any other material litigation.

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13.

SUBSEQUENT EVENTS:

The Company has evaluated events that occurred subsequent to June 30, 2016 for recognition and disclosure in the financial statements and notes to the financial statements.

From July 1, 2016 through September 16, 2016, the Company has issued 17,479 shares of the Company's common shares to an employee and consultants valued at approximately \$14,000.

From July 1, 2016 through September 16, 2016, a consultant has elected to convert approximately \$6,000 of deferred compensation into 7,152 shares of the Company's common shares.

From July 1, 2016 through September 16, 2016, the Company has granted 35,000 options to purchase shares of the Company's common shares at an exercise price of \$1.00 per share. The options vested immediately upon grant date and expire on July 31, 2020.

From July 1, 2016 through September 16, 2016, the Company has sold 30,467 shares of the Company's restricted common stock for \$0.75 per share.

From July 1, 2016 through September 16, 2016, the Company has sold 120,000 units for \$0.75 per unit, with each consisting of one share of the Company's restricted stock and one warrant to purchase one half of a share of the Company's restricted common stock for \$1.00 per share until December 31, 2017. The proceeds from the sale of the units totaled \$90,000.

From July 1, 2016 through September 16, 2016, 722,319 warrants to purchase the Company's common stock expired unexercised.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunder duly authorized.

BION ENVIRONMENTAL TECHNOLOGIES, INC.

Dated: September 19, 2016

By: */s/ Mark A. Smith*

Mark A. Smith, President and Chief

Financial Officer (Principal Financial

and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

SIGNATURE

TITLE

DATE

/s/ Mark A. Smith

Executive Chairman,

September 19, 2016

Mark A. Smith

President, Chief
Financial Officer

and Director

/s/ Dominic Bassani

Chief Executive
Officer

September 19, 2016

Dominic Bassani



/s/ Jon Northrop

Secretary and
Director

September 19, 2016

Jon Northrop

/s/ Edward Schafer

Vice Chairman

September 19, 2016

Edward Schafer

and Director

